FINANCIAL TIMES

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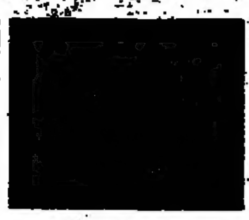

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WORLD NEWS

Nato general seeks to break Kosovo talks deadlock

The US called in Nato supreme commander General Wesley Clark to help break the deadlock in the Kosovo peace talks before this afternoon's deadline. General Clark's intervention came as US Secretary of State Madeleine Albright continued to put pressure on the Serbians and Kosovo Albanians. The Serbians have so far refused to agree to a Nato-led peacekeeping force. **Europe, Page 2**

Blair commitment on euro
Tony Blair, UK prime minister, will today end months of equivocation and signal a clear commitment to taking Britain into Europe's single currency early after the next general election. **Page 16**

London police chief 'will not quit'
The future of London police chief Sir Paul Condon may hinge on his willingness to accept there is "institutionalised racism" in his force, an allegation made in a report on the killing of black student Stephen Lawrence in 1993. **UK news, Page 8**

Germany drops nuclear plan
Germany's Green environment minister Jürgen Trittin has withdrawn plans for an early ban on reprocessing nuclear waste. The move acknowledges the stiff opposition to his proposals for shutting 19 atomic power stations. **Europe, Page 2**

South Korea grants amnesty
South Korea announced an amnesty for nearly 9,000 offenders, including a former North Korean soldier jailed 41 years ago. **Asia-Pacific, Page 6**

Australian diplomatic push
Australia has launched a diplomatic push in Asia and the Middle East, aimed first at securing a leading role in Indonesian deliberations on the future of East Timor. **Asia-Pacific, Page 6**

Hong Kong jobless rise
Hong Kong unemployment inched higher last month amid warnings of further increases to come this year. It reached 5.8 per cent for the three months to January. **Asia-Pacific, Page 6**

Call for China constitution change
China's bankruptcy guru Cao Siyuan urged changes in the constitution to provide greater protection to private property and a presumption of innocence in law courts. **Don't write off China, Page 14**

Dissident leader held over bombing
Irish republican Francis Mackey, chairman of the 32 County Sovereignty Movement and a member of Omagh council, was among four people arrested in connection with the Omagh bombing, which killed 29 people last August. **UK news, Page 8**

Doctor charged with 15 murders
British doctor Harold Shipman, 52, already accused of killing eight patients, was charged with murdering seven more near the northern city of Manchester.

22 saved from stranded ferry
All 22 passengers and most crew of a British car ferry that broke down outside the French Channel port of Boulogne were taken off by helicopter.

BUSINESS NEWS

Volvo breaks off takeover talks with rival Scania

Volvo, the Swedish automotive group, has abandoned attempts to create Europe's largest maker of heavy trucks by breaking off takeover negotiations with Scania, its Swedish rival. Volvo said the two sides had failed to agree on a valuation. **Companies and Markets, Page 17; Volvo backs off, Page 18**

Olivetti's $58bn bid for Telecom Italia suffered a setback last night when Consob, the Italian stock market watchdog, said the bid was "not valid". **Companies and Markets, Page 17; Capitalist renaissance? Page 15; Lex, Page 16; Bonanza for advisers, Page 18**

Pinkerton, the US private investigation and security group that dates back to the pursuit of outlaws such as Jesse James and the Wild Bunch, has agreed a SKr3bn ($384m) takeover by Swedish rival Securitas. **Companies and Markets, Page 17**

Swiss Life, Switzerland's biggest life insurer, has taken its first step into private banking with an agreement to pay SFr2.4bn ($1.66bn) for Gotthard Bank, Switzerland's biggest foreign bank. **European companies, Page 18**

Consolidation in the European insurance industry picked up pace as Skandia of Sweden and Storebrand of Norway announced plans to merge their non-life operations. **European companies, Page 18; Observer, Page 15**

Air France and Alitalia shares rose strongly amid indications that the airlines had held talks on the creation of an international alliance. **European companies, Page 18**

Diageo, the world's largest drinks group, has taken the first step in disposing of its underperforming spirit brands with the sale of eight Canadian whiskies to Canandaigua, the US drinks company. **UK companies, Page 22**

The US and Russia have reached a tentative agreement that would reduce Russian exports of steel to the United States by almost 70 per cent, US commerce secretary William Daley said.

Cable and Wireless, the UK-based communications group, has appointed Graham Wallace, head of cable TV and telephony business, as chief executive. **Companies and Markets, Page 17**

Lubomir Soudek, the Czech Republic's most prominent industrialist, has been removed as chairman and chief executive of Skoda Plzen, the country's biggest engineering company. **European companies, Page 18**

GE Capital, the US financial services group, is "aggressively" seeking to expand in Japan by acquisitions in areas such as consumer finance. **Companies and Markets, Page 17**

TENS OF THOUSANDS OF FARMERS CLAIM THAT EUROPEAN UNION POLICY CHANGES WILL FORCE THEM OUT OF BUSINESS

CAP reform plans spark angry protests

By Michael Smith in Brussels

Belgian police yesterday used water cannon and tear gas on farmers protesting against European Union plans to reform agricultural policy.

As farm ministers gathered in Brussels for talks on what could be the most radical reform of the common agricultural policy in 37 years, police tackled farmers throwing bottles, stones, firecrackers, fruit and eggs.

More than 30,000 farmers from across Europe, mainly from France, Germany and Belgium, demonstrated in central Brussels. They claim incomes will fall, forcing some out of business. "There will be few farmers in Europe and practically none in Portugal," warned Paulo Osorio, Brussels representative of the Portuguese farmers' union.

The area surrounding EU institutions, including the European Commission and council of ministers, was sealed off with barbed-wire barricades. Schools and metro stations closed and European Parliament and council staff were given the day off.

The demonstration was thought to be the largest in Brussels since a 1971 protest by 100,000 farmers. Although most protesters were peaceful, several thousand farmers were involved in stand-offs with police. Up to 5,000 police officers were on duty.

Demonstrator uprooted trees and dismantled road signs for ammunition. Tractors were banned and farmers prevented from taking animals. Police said 24 people – half of them from their own ranks – were injured, none seriously. There were about a dozen arrests.

The farm reforms are part of the European Commission's so-called Agenda 2000 blueprint to allow the EU to cut spending, expand to the east and export more farm produce. The CAP costs €40bn a year, nearly half the EU budget, and has increased almost every year since its 1962 creation.

The reforms would introduce cuts of up to 30 per cent in guaranteed prices for beef, cereals and milk.

Although farmers would be compensated through direct payments related to farm sizes, they say the reforms will reduce incomes at a time when low world farm prices are already depressing earnings.

Their anger has increased as EU governments have swung behind the idea of annual cuts in direct aid after it rises to a maximum in the early years of the next decade to compensate for price cuts.

"Why must farmers pay for everything? The reform is too fast," said Bonno Sochen, who farms on the German-Dutch border.

"We farmers can't just watch while our future is ruined," said Gerd Sonnleitner, head of the German farmers' federation.

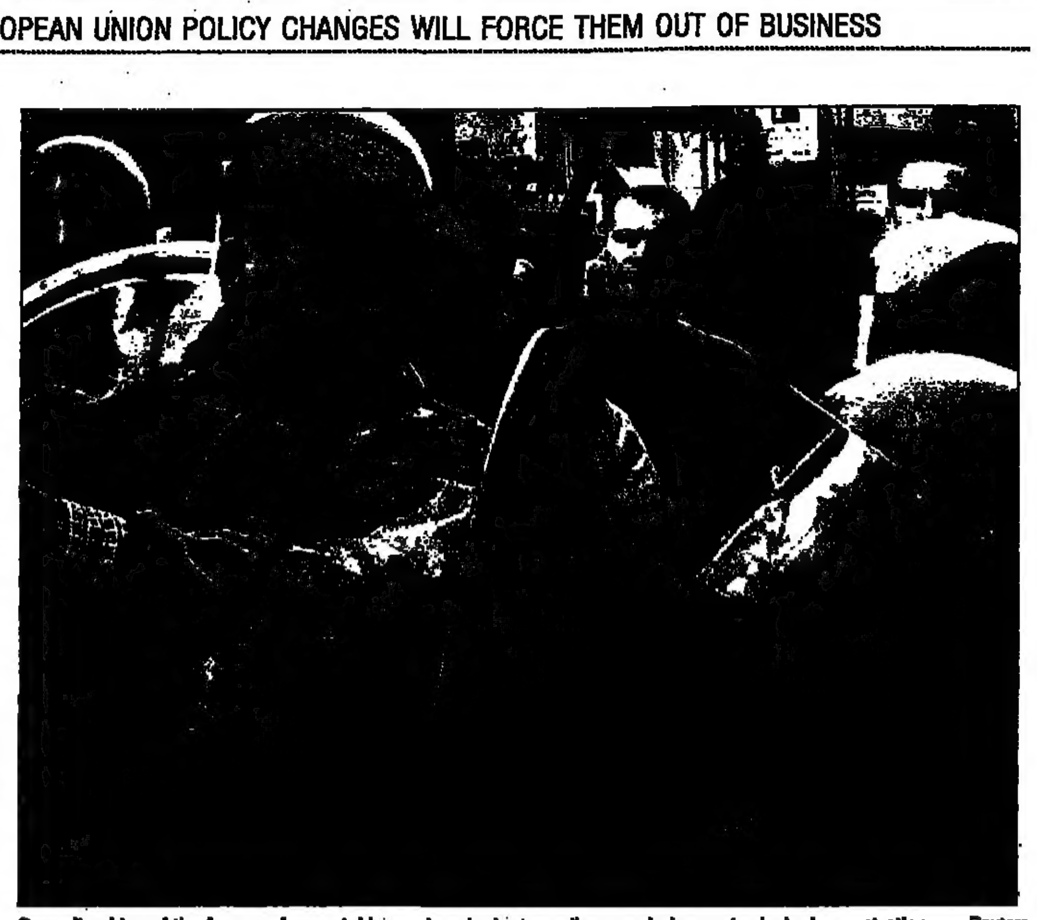
Many farmers carried black flags picturing a crossed plough and sword. "The EU sells off farming," one banner read. "Without farmers, no future," said others.

Luc Guyau, head of Copa, the European farmers' association, said the demonstrations had been mainly calm and caused no major damage. He said CAP spending represented only 0.5 per cent of EU gross domestic product.

"Whatever happens, farmers must be guaranteed full compensation for income losses."

Germany, holder of the EU presidency, wants a reform package agreed this week, but France is among countries saying this is not possible. EU heads of government meet near Bonn on Friday to assess Agenda 2000 progress.

Commission unveils CAP, Page 2
Commodities, Page 26



Opposite sides of the fence: a farmer taking a close look at a policeman during yesterday's demonstration. Reuters

Levi's to shut half its N American plants

Closures and job losses to cost jeans company $245m

By Andrew Edgecliffe-Johnson in New York

The decline of blue jeans, for [illegible] uniform of the American working and playing man, has forced Levi Strauss to close half of its remaining North American factories and eliminate 5,900 jobs, 30 per cent of its workforce, at a cost of $245m.

The 146-year-old textile group suffered a 13 per cent drop in sales last year as consumers deserted its traditional five-pocket jeans in favour of khakis and more fashionable jeans brands such as Tommy Hilfiger and Mudd.

The family-owned company said the closures were part of a series of strategic steps by its American division to improve its competitiveness by moving its manufacturing operations overseas, where labour costs are lower.

The move comes a week after Levi, one of the world's largest brand-name clothing makers, reported its sales fell from $6.9bn to $6bn last year, largely as a result of weak sales of jeans.

Bob Haas, the chief executive officer whose great great uncle patented the use of metal rivets to hold denim trousers together, said: "Younger customers in particular are very fickle: they are less likely to wear the uniforms we may have worn when we were younger."

He added, however, that his family had seen similar slumps in the depression of the 1920s and again in the early 1980s, from which they had always rebounded. "I believe jeans are really at the core not just of the American wardrobe but of the wardrobe of the global consumer," he said. Consumers continue to shift from formal wear to more casual clothing, he added.

Last year Levi's shut 13 US sites and four European plants at a cost of 7,400 jobs. "That was to remove excess capacity," Mr Haas said: "The announcement today is to focus our energies on the consumer."

He admitted that the company's success from the mid-1980s to the mid-1990s "perhaps dulled our perceptions of customers' needs and competitive challenges." He added, however: "Consumer trends move not just locally or regionally now, but globally, and with breathtaking speed."

The US jeans market is still worth $11bn, and Levi's traditional jeans such as 501s still claim a quarter of it. But the inventor of the original "waist overalls" has lost market share to own-label jeans from retailers such as Gap, which offered similar quality at lower prices, and to more trendy brand names.

Levi's has not been alone in shutting plants. VF jeans, the maker of Lee and Wrangler jeans, has also cut capacity in the past year and yesterday's announcement is a further blow to the US textile industry.

"Virtually every major apparel company has eliminated, scaled back or never owned manufacturing facilities" in the US, the group said yesterday.

Levi's struggles, Page 21

HSBC considers share buyback

By George Graham, Banking Editor

HSBC Holdings, the international banking group, yesterday outlined a new strategic plan aimed at doubling shareholder returns in the next five years and spreading the group's risks between volatile emerging markets and the more stable banking markets of Europe and north America.

The bank raised the prospect of a share buyback as it reported a 19 per cent fall in pre-tax profits to $6.57bn (€5.92bn) in 1998, and announced plans to fold its two classes of share into a single category denominated in dollars.

John Bond, who took over as chairman last year from Sir William Purves, said any share buyback would be sparing. Indeed, even if shareholders approve the plan, the bank is not committed to using the power at all.

Even the possibility of a share buyback, however, is a dramatic change for a bank that has for years produced returns in excess of 20 per cent.

But Mr Bond said HSBC's loan portfolio had declined last year by 2 per cent and its total assets had grown by 2 per cent, while it had still generated $1.82bn of retained profits.

The bank will also seek a listing in New York, alongside its London and Hong Kong listings.

HSBC, which owns the UK's Midland Bank, has until now used surplus capital to finance loan growth and to pay for acquisitions in emerging markets. Yesterday, it announced a deal to pay $700m to the South Korean government for a 70 per cent stake in Seoulbank, one of the country's largest banks. HSBC will make an upfront $200m "facilitation payment".

The capital restructuring to be put to shareholders at the annual meeting in May would give three new US dollar ordinary shares for each existing HK$ or sterling share. Shareholders will still be able to receive cash dividends in any of the three currencies.

The HK$ and sterling shares are both tradeable in either London or Hong Kong and should, in theory, sell for the same price. A wide gap has, however, persisted between the two.

That narrowed dramatically yesterday as the HK$ shares rose 16p to 1577p and the sterling shares dropped 67p to 1609p.

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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9,494.57	(+154.82)
Nasdaq Composite	2,315.58	(+31.98)
Europe and Far East		
CAC40	4,165.86	(+35.38)
DAX	4,845.18	(+42.80)
FTSE 100	6,069.9	(+36.7)
FTSE Eurotop 300	1,221.53	(+17.03)
Nikkei	14,258.67	(+158.65)
US Lunchtime RATES		
Federal Funds	4.8125%	
3-mth Treas Bills: Yld	4.602%	
Long Bond	99⅝	
Yield	5.364%	
OTHER RATES		
UK: 3-mo Interbank	5⅜%	(5⅜%)
UK: 10 yr Gilt	112.05	(112.18)
Euro Euribor	3.075%	(3.086%)
Germany: 10 yr Bund	98.98	(98.92)
Japan: 10 yr JGB	100.585	(100.615)
NORTH SEA OIL (Argus)		
Brent Dated	$10.19	(10.22)

GOLD		
New York: Comex	$289.0	(288.5)
London:	$287.35	(287.05)
DOLLAR		
New York: Lunchtime		
£	1.62375	
€	0.9065	
SFr	1.44975	
Y	121.05	
London:		
£	1.6227	(1.6358)
€	0.9065	(0.9013)
SFr	1.4498	(1.4419)
Y	120.33	(120.83)
Tokyo Close		Y 121.98
EURO (London)		
$	1.1032	(1.1233)
£	0.6798	(0.6867)
Y	132.748	(133.555)
SFr	1.5995	(1.5961)

Eurozone target price €2.15. Prices in local currency as shown

Bahrain	Din1.300	Iceland	IKr285	Oman	OR1.75
Belgium	BFr90(€2.23)	Italy	L3900(€2.01)	Poland	Zl 10.00
CIS	US$4.50	Jordan	JD1.75	Portugal	Esc320(€1.60)
Croatia	Kn19.00	Kuwait	KWD0.750	Qatar	QR13.00
Denmark	DKr16.00	Latvia	Lat1.65	South Africa	R15
Estonia	EEK34.00	Lithuania	Lit21.00	Spain	Pta325(€1.95)
Finland	FMk13.00(€2.18)	Lebanon	LBP3,500	Sweden	SKr20.00
France	FFr14.00(€2.13)	Luxembourg	LFr90(€2.23)	Switzerland	SFr3.50
Gibraltar	£0.85	Morocco	Dh18.00	Syria	S£80.00
Greece	Dr600	Netherlands	Fl 4.80(€2.18)	Tunisia	Din2.000
Hungary	Ft380	Norway	NKr19.00	UAE	Dh13.00

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KOSOVO PEACE TALKS US CALLS IN CLARK AS DEADLINE LOOMS □ ALBRIGHT PUTS PRESSURE ON SERB AND ALBANIAN DELEGATIONS

Nato chief to help break deadlock

By Guy Dinmore in Belgrade and David Buchan in London

The US last night called in Nato's supreme commander, General Wesley Clark, to help break the deadlock in the Kosovo peace talks less than 24 hours before today's deadline.

Gen Clark's intervention, the first by a Nato official in the 16-day negotiations, came after Madeleine Albright, US Secretary of State, spent yesterday trying to put pressure on the Serbian and Kosovo Albanian delegations at the Rambouillet *château*.

Serbian refusal to agree to a Nato-led peacekeeping force, which the Albanians and Nato regard as essential to underpin any political settlement, has held up the talks. They have a deadline of 2pm GMT today.

Gen Clark, the senior US general in Europe, was believed to be meeting Albanian delegates to reassure them of the security a Nato force would bring.

But he was also expected to meet counterparts in the Serbian delegation with whom talks on the controversial military annexe have now begun.

Earlier in the day, Milan Milutinovic, the Serbian president, reiterated Serbia's rejection of a Nato peacekeeping force in Kosovo, an integral element of the US peace plan.

But, in a softening of Belgrade's position, he added: "We may discuss the scope and character of an international presence."

Mediators said there was little room to negotiate the mandate and composition of a Nato-led force totalling around 28,000 troops.

Yevgeny Primakov, the Russian prime minister, said Moscow was ready to contribute to a peacekeeping force if Serbia agreed to its presence.

Diplomats in Belgrade said that President Slobodan Milosevic might agree to a peacekeeping force if it was authorised by the UN Security Council.

Mr Milutinovic said his delegation was willing to sign what he said had been agreed verbally with US mediators but he accused them of twisting elements in the final written text.

If agreement is reached on the political aspects of a three-year interim deal for broad autonomy for Kosovo, the deadline could be extended to negotiate details of the Nato force provided that Belgrade gave a firm indication it was ready to accept a foreign military presence.

Divisions emerged within the Kosovo Albanian delegation yesterday.

Hasim Thaci, a leading member of the separatist Kosovo Liberation Army (KLA), offered his resignation as head of the 16-member negotiating team. Mediators said this could be a piece of theatre but were trying to persuade him to withdraw his offer.

Mrs Albright has made it clear that Nato would only carry out its threat to launch air strikes against Serbia if the Kosovo Albanians signed an agreement and Belgrade did not. Diplomats expected the KLA to keep the Serbs and the international mediators guessing about their intentions until the very last moment.

There were fresh clashes in Kosovo yesterday. Serbian police backed by armoured units of the Yugoslav army traded fire with the KLA for about three hours outside the northern town of Vucitern.

Commission unveils CAP concessions

By Michael Smith in Brussels

The European Commission last night made its first concessions on proposed reform of the Common Agricultural Policy as part of an effort to win European Union governments' approval for a wide-ranging package of changes.

The concessions to the beef and milk regimes would cost an extra €90m ($99.8m) if fully implemented by 2006 as the Commission intends.

This means further changes to the reform proposals are inevitable. EU finance ministers have made clear they are looking for a freeze in the farm budget at the 1999 level of about €40bn by 2006. The concessions were unveiled by the Commission and Germany, holder of the EU's rotating presidency, as farm ministers began marathon talks in Brussels aimed at agreeing reform. On beef, the Commission has backed away from plans to end "intervention" buying, a system through which the EU buys meat at guaranteed prices.

However, the intervention prices will be well below current levels and so will only come into operation when prices are exceptionally low.

Most of the additional €90m expenditure, however, will be incurred by changes to direct payments, made as compensation for proposed price cuts. Beneficiaries of the changes would include Spain, Portugal, Sweden, Finland and Austria.

Changes to milk proposals are likely to have a negligible effect on the CAP budget.

The most important concession is a proposal to change the allocation of increased quotas envisaged under the reform. Commission proposals tabled last March suggested a 2 per cent increase in the quotas which limit production to keep supply in balance with demand. Half of the increase was to go to farmers in mountainous regions and the rest to priority groups including young farmers. Countries without mountainous regions protested. Yesterday's revised proposal would cut the allocation for mountainous region farmers from half of the increase to a quarter, in other words half a percentage point. The five-page compromise paper makes provision for an unspecified allocation of increased milk quota for specific member states.

The paper says milk prices should reduce in four equal steps by a total of 15 per cent, the same drop as envisaged in the March proposals. However, member states would conduct a review of the milk regime in 2003.

Officials of the council and the Commission last night embarked on bilateral negotiations with the 15 member states. Compromise proposals on cereals are expected to be unveiled today.

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Jospin faces home-grown agriculture row

France can make few, if any, concessions in Brussels without provoking the anger of its powerful farming lobby

Reforming the Union

By Robert Graham in Paris

France finds itself caught between a rock and a hard place in the negotiations to reform the common agricultural policy (CAP) which began yesterday in Brussels.

The Socialist-led government of Lionel Jospin, prime minister, can make few – if any – concessions to its EU partners without incurring the wrath of the country's powerful agricultural lobby. French officials admit farmers are in as ugly a mood today as they have ever been. Farmers' incomes are being squeezed by low commodity prices and they fear any loosening of the CAP's protective subsidies would leave them exposed to competition from abroad.

But without making concessions in Brussels, the government is aware France risks a damaging head on confrontation with Germany. Chancellor Gerhard Schröder's government holds the EU presidency and Germany is pressing for cuts in the agricultural spending as the main means of reducing its contribution to the community's budget.

"The French know a dogfight with the Germans would undermine the credibility of an enhanced Franco-German axis running the euro-zone," observed an EU diplomat over the weekend.

France has been signalling since Christmas its willingness to make concessions on agricultural financing, satisfying both the farmers and the Germans, but this threatens to be an impossible task.

Yesterday's protest by farmers in Brussels had been preceded by a number of recent demonstrations inside France. The most violent of these on February 6 saw some 200 farmers from the Paris region ransack the offices of Dominique Voynet, the Green environment minister. This action went well beyond the normal casual disregard for the law shown by French agricultural protests. It provoked a rare rebuke from Mr Jospin.

Luc Guyau, chairman of Fnsea, the main farmers union, showed little contrition. His members have already rejected any cut in EU subsidies whether affecting cereals, meat or dairy production. They accuse Ms Voynet of making matters worse by seeking to introduce a tax on pollutants which they believe will penalise the use of fertilisers, herbicides and pesticides.

Farmers account for 4.2 per cent of France's active population and agriculture generates only 2.4 per cent of GDP, yet their lobby is powerful. Successive governments have either backed or given into the demands farmers ever since the CAP was established in 1962.

Under the present "co-habitation" between a Socialist government and rightwing president in France, matters have been complicated. Mr Jospin has sought for the first time to wean the farmers away from the right and has concentrated on championing the smallholders in a new law now before parliament. This has created tensions with President Jacques Chirac, who as a former Gaullist agriculture minister felt particularly keenly this attempt to poach from a traditional bastion of the right.

It took a special cabinet session attended by Mr Chirac last Wednesday to hammer out a common French position for the Brussels talks. The common platform rejects German-backed ideas of "co-financing" which would shift part of agricultural funding back to national governments, notably France.

French officials insist co-financing would undermine the essence of the CAP and say they back a system of gradual cuts in aid over the next six years. The largest cut would be an annual 3 per cent applied to cereals, grown on the largest and most efficient French farms.

Even if headway is made on reform of the CAP, France is expected to stipulate that any agreements will have to be linked to deals made on the broader negotiations for the EU's financing for the period 2000-6, the so-called Agenda 2000.

"You cannot expect us to make concessions here unless others make concessions elsewhere," a senior official said last week.

OCALAN CLAIM TURKISH PRESIDENT'S REMARKS LEAD TO FRESH SOURING OF RELATIONS

Outlaw Greece, says Demirel

By Leyla Boulton in Istanbul

Suleyman Demirel, the Turkish president, yesterday said Greece should be declared an outlaw state, after the captured Kurdish leader Abdullah Ocalan allegedly told interrogators that Greece had long been supplying his militant movement.

"Greece should be added to the list of countries that support terrorism and harbour terrorists. A country like that can only be described as an outlaw state," the Anatolian news agency quoted Mr Demirel as saying during an interview with Philippines television during a visit to Manila.

Each year, the US State Department releases a list of countries it says sponsor terrorism.

The remarks suggested a further souring of an already fraught relationship between the two countries since the capture of Mr Ocalan, leader of the Kurdish Workers Party (PKK), last week in Nairobi. He had been hiding inside the Greek embassy in the Kenyan capital.

Three Greek ministers have since resigned over outrage in Greece caused by the government's failure to protect Mr Ocalan after giving him sanctuary.

The Hurriyet newspaper, the best-selling Turkish daily, yesterday published what it described as Mr Ocalan's "first confessions". The newspaper claimed Mr Ocalan told Turkish interrogators that Greece had supported the PKK by giving it arms and missiles; providing training for his militants at a camp in Greece; and giving him a Greek Cypriot passport.

"What is worse is that we see no sign of remorse," Mr Demirel said. "On the contrary, Greece is shamelessly unhappy at the fact that Ocalan is in the hands of justice."

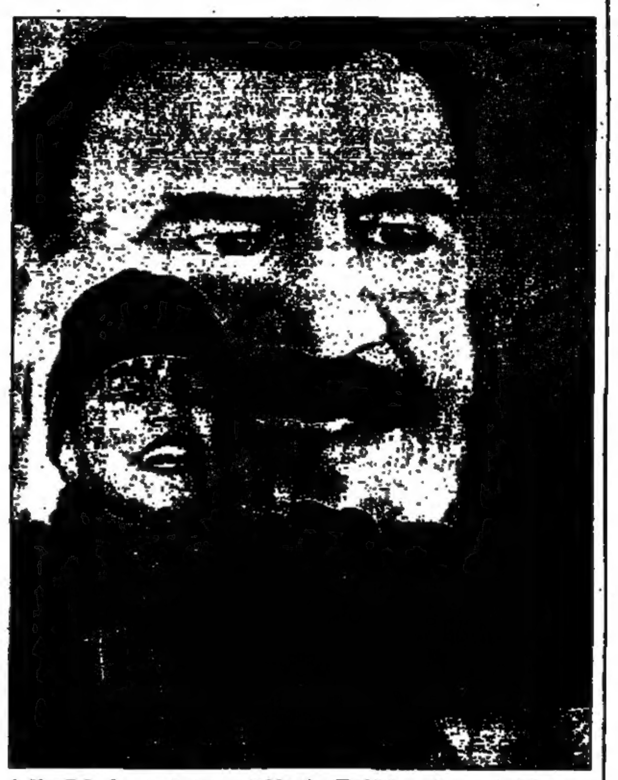
European Union foreign ministers yesterday held out an olive branch to Turkey, underlining their support for its territorial integrity and offering financial aid for projects in its troubled southeast region, where most of the population are Kurds.

The 15 ministers also condemned terrorism, and the violence in Europe sparked by Mr Ocalan's capture, while calling for Turkey to give him a fair and open trial. Turkey holds Mr Ocalan responsible for a 14-year conflict which has cost up to 30,000 lives.

The EU statement made no comment on Greece's role in the affair. George Papandreou, Greek foreign minister, acknowledged that Greece should have informed other member states of developments concerning Mr Ocalan. But he denied Greece had been aiding a terrorist by providing Mr Ocalan with shelter.

Greece had tried to get Mr Ocalan to a third country "for strictly humanitarian reasons" but had been unsuccessful. "There was nothing beyond that".

Meanwhile the PKK's call for a general strike in the south-east of Turkey met a patchy response in Diyarbakir, the region's biggest city. No violence was reported.



A Kurdish demonstrator outside the Turkish embassy in Moscow shows his support for PKK leader Abdullah Ocalan Reuters

Rates debate gets a new twist

The euro's 5 per cent fall against the dollar since January has raised doubts about early interest cuts, says **Wolfgang Munchau**

ECB watch

The euro's gradual decline against the dollar has given a new twist to the debate over European interest rates.

The currency's 5 per cent fall since January, which yesterday saw the single currency dip below $1.10 for the first time in its brief life, constitutes a loosening of monetary policy for exporters, who benefit directly from a cheaper exchange rate.

But its impact on the debate on interest rates – and whether and when they should be cut by the European Central Bank – is far from straightforward.

The export sector only accounts for just over 10 per cent of the euro-zone's output, so the currency's decline has a lopsided effect on the overall economy. Lower interest rates are a more even-handed form of monetary relaxation, since they leave private and corporate creditors better off.

But both measures could have similar macroeconomic effects. The euro's fall from over $1.17 in early January means monetary conditions in the euro-zone have been loosening, even though the ECB has kept its benchmark short-term interest rate unchanged at 3 per cent.

The euro's latest fall came amid renewed pessimism over economic growth in Germany and Italy – which has led many analysts to estimate that the euro-zone is likely to grow by less than 2 per cent this year. The US economy, meanwhile, continues to expand robustly.

The overwhelming consensus among analysts had previously been that the ECB would cut rates in the first half of the year.

That remains the majority view, but more dissenters are beginning to be heard. Rolf Schneider, economist at Dresdner Bank, believes that the weak euro, high wage increases in Germany, and relatively lax fiscal policy are likely to deter the ECB from cutting interest rates.

The ECB could argue that the euro's present weakness may mean that a rate cut is no longer necessary. The monetary data, which the ECB says it relies on heavily, also point against a rate cut. M3, a measure of broad money, has grown by an annual rate of 4.7 per cent in the last quarter in 1998, close to the ECB's reference value of 4.5 per cent.

Indeed, in recent days several central bankers, including Wim Duisenberg, ECB president, have argued that monetary conditions are sufficiently lax to allow good economic growth.

The risk of further weakness in the euro may itself be another argument against a rate cut, which could accelerate any currency fall.

However, unlike central bankers, politicians seem to be largely unperturbed by this issue.

Heiner Flassbeck, secretary of state in Germany's finance ministry, said yesterday the fall in the euro was not a cause for alarm, since it reflected different market expectations for US and euro-zone interest rates.

However, it will be the central bankers, and not the politicians, who decide any future rate cuts.

Economic indicators for euro-11 countries

	Dec 1998	Nov 1998	Oct 98	Sep 98	Aug 98	Jul 98	97	96
Inflation (annual % change)	0.8	0.9	1.0	1.0	1.2	1.4	1.6	2.2
Unemployment (%)	10.8	10.8	10.8	10.9	11.0	11.0	11.6	11.6
Trade (Ecu bn)								
Exports	n.a.	66.0	68.7	65.6	66.2	72.6	[illegible]	[illegible]
Imports	n.a.	58.5	61.4	60.4	49.7	58.9	671.4	594.2
Trade balance	n.a.	8.5	7.2	5.2	6.4	13.6	88.4	73.5
Current account (Ecu bn)	03 1998		02 98		01 98		04 97	03 97
Current account balance	21.8		26.6		12.4		26.0	28.6
As % of GDP	1.5		1.7		0.8		1.8	1.9
Industrial production (%) (3 mo over previous 3 mo)	Sep-Nov / Jun-Aug		Aug-Oct / May-Jul		Jul-Sep / Apr-Jun		Jan-Aug / Mar-May	1997	1996
	0.3		0.5		0.8		0.7	4.1	0.3
GDP growth (%)	03 1998		02 98		01 98		04 97	97	96
Over same quarter last year	2.7		2.8		3.7		3.1	2.5	1.6
Money supply	Dec 1998		Nov 1998		Oct 98		Sep 98	Aug 98	Jul 98
M3 Annual growth rate (%)	4.5		4.7		5.0		4.5	4.5	5.0

* Provisional ** Estimated † [illegible] Source: Eurostat

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Bonn minister shelves nuclear reprocessing ban

By Ralph Atkins in Bonn

Jürgen Trittin, Germany's Green environment minister, has withdrawn plans for an early ban on reprocessing nuclear waste in the clearest acknowledgement yet of the stiff opposition to his proposals for shutting the country's 19 atomic power stations.

The environment ministry confirmed yesterday that the proposed ban – which Mr Trittin had originally envisaged starting next January – had been removed from draft changes to the country's atomic law.

Last month "consensus" talks between government and industry, chaired by Gerhard Schröder, the chancellor, agreed the reprocessing of nuclear waste by companies in France and Britain would continue until suitable alternatives had been found.

Industry expressed surprise that clauses referring to a proposed ban had been removed completely from the draft circulating in Bonn. It had been expected that just the timetable for the ban's implementation would be removed.

But the environment ministry said a ban without an implementation date would have been nonsensical. The goal of ending nuclear waste reprocessing would now be discussed in case-by-case negotiations with industry on shutting the 19 atomic power stations.

Industry experts reckon that could mean reprocessing continuing until 2004 or later. With many still suspicious of Mr Trittin's intentions and tactics, however, some feared the environment minister would seek other mechanisms for imposing an early ban.

Mr Schröder last night met Mr Trittin and other senior members of his Social Democrat-led coalition to review the draft amendments on nuclear power – as well as other controversies which have hit the new government since it took office in October.

Yesterday Oskar Lafontaine, SPD chairman and finance minister, said the government would slow the tempo of its legislative programme after the bumpy start. Proposals would have to be fully worked out before being launched.

Mr Lafontaine said the government was looking in particular for a "broad consensus" behind its plans to reform the country's nationality laws – including talks with the opposition Christian Democratic Union.

Earlier this month, Mr Schröder's government lost its majority in the Bundesrat, or second chamber of parliament, after the defeat of the SPD-Green coalition government in the state of Hesse, central Germany. The Bundesrat, which has to approve many federal bills, represents the 16 Länder, or federal states.

NEWS DIGEST

DIFFERENCES REMAIN OVER UK COLONY

Spain, Britain seek to cut tensions over Gibraltar

Spain and Britain have agreed they should improve bilateral relations and reduce tensions arising over the British colony of Gibraltar, although a meeting of their foreign ministers showed fundamental differences over the territory remain.

Abel Matutes, Spanish foreign minister, said yesterday he was pleased that Robin Cook, UK foreign secretary, had declared his support for the implementation of European Union law in Gibraltar. This, he said, was "very important" because as constituted at present the colony was a "parasite of the Spanish economy", providing a haven for tax evasion and money launderers, and a "stone in our shoes", impairing UK-Spanish relations.

Earlier, reporting on Sunday's bilateral talks with the Spanish minister, Mr Cook said Gibraltar had made significant progress in transposing EU directives into Gibraltar law, with only eight of 66 directives still to be introduced. **Peter Norman, Luxembourg**

IRISH TOURISM

Revenue soars to record

Ireland's tourism revenue soared to a record I£3.1bn (€3.94bn) ($4.37bn) in 1998, and the industry is set to overtake agriculture as the country's largest employer, the Irish Hotels Federation said yesterday.

Employment in the sector had grown by almost 20 per cent since 1996, and hotels and guesthouses employ more than 50,000 people, said Bill Power, president of the IHF, at the launch of its annual report.

Revenue from overseas visitors rose nine per cent to I£2.3bns, with the number of foreign tourists rising 10 per cent to I£5.5m. An additional I£800m came from domestic tourism, giving total revenue equivalent to around five per cent of Ireland's gross domestic product.

There were more than 820 hotels and 443 guesthouses in Ireland last year, providing over 40,000 rooms, an increase of almost 30 per cent over the past three years, Mr Power said. **Reuters, Dublin**

HUNGARY'S CURRENT ACCOUNT DEFICIT

PM blames foreign companies

Viktor Orban, Hungarian prime minister, will this week meet leaders of multinational investors after his government said foreign companies were partly to blame for a deterioration in the country's current account deficit last year.

Attila Chikan, economic affairs minister, said 20 business leaders would be meeting the prime minister after repatriation of profits doubled in 1998 to $1bn, against $500m in 1997.

The rise in repatriations contributed nearly half of Hungary's $2.26bn current account deficit for the year –around 4.6 per cent of gross domestic product – against $1bn in 1997. **Robert Wright, Budapest**

GEORGIAN PRESIDENT

Shevardnadze hits at Russia

Eduard Shevardnadze, Georgia's president, yesterday harshly criticised Russia for its refusal to extradite a man suspected of trying to kill him.

"Support for terrorists will backfire against those who render it," Mr Shevardnadze said. "I wonder what Russia's reaction would be if Georgia harboured terrorists, bandits and killers plotting to overthrow the Russian government."

Mr Shevardnadze was referring to Igor Giorgadze, a former Soviet KGB officer and Georgia's former security chief, who fled to Moscow after Georgian officials charged him with organising a 1995 bombing of the Georgian president's motorcade.

Mr Shevardnadze escaped that attack with minor cuts. He also narrowly survived an assassination attempt in February 1998, when up to 20 gunmen showered his motorcade with grenades and automatic gunfire. **AP, Tbilisi**

Bancorex, Romania's biggest bank, starts to fight for its life

'There was a state of terror here: the staff were just instruments to execute decisions of two or three people.' **Joe Cook** reports

Until 1997, the directors of Bancorex, Romania's biggest bank, "were able to sign off on $10m loans with one signature – their own", recounts Dragos Andrei, the bank's senior vice-chairman.

"The amount decreased to $8m for the vice-chairmen, and so on down the line. There was a state of terror here: the staff were just instruments to execute the decisions of two or three people."

While that regime ended after 1997, the price is still being paid. Yesterday, senior officials at Bancorex said Vlad Soare, the bank's chairman since April 1998, was considering resigning under pressure from the World Bank, which is advising the Romanian government on the recapitalisation and restructuring of Bancorex.

Other senior Bancorex managers could follow suit before the week is out.

In 1997 Bancorex, which is 63 per cent state-owned and has a 25 per cent share of the Romanian banking market, reported profits of $90m.

When a new management team, Mr Andrei among them, arrived last April, its first move was to look again at the bank's 1997 figures. "We never expected to find problems of such magnitude," said Mr Andrei.

Bancorex lent hundreds of millions of dollars to trading and import-export companies, many of them set up by former members of communist Romania's intelligence service, the hated Securitate.

Nearly $70m was loaned to manufacturers to purchase machinery, the cash-flow from which, says another senior Bancorex manager, could never have serviced the loan repayments.

Bancorex's biggest debtor by far is GC&P, a hotel and trading company that owes nearly $142m to the bank. Much of this lending was influenced by cronyism and politics. "Bancorex was not a bank," says Mr Andrei, "it was a state organisation."

Among the companies and individuals that own 10 per cent of Bancorex, "you'll find significant debtors to the bank," he said.

After the accounts for 1997 were trawled through, the $90m profit was adjusted to a $90m loss. Some 70 per cent of the bank's loan portfolio was classified as non-performing. Today, Bancorex is fighting for its life. "If nothing is done very shortly, the bank will require the full support of the National Bank of Romania [the central bank]," says Mr Andrei.

The recapitalisation and restructuring of Bancorex, which Mr Andrei estimates will take $1bn, is a precondition for new loan agreements between Romania and the International Monetary Fund and World Bank. Without multilateral loan accords, Romania risks defaulting on foreign debt service payments of $2.9bn this year, $1.6bn of which falls due within 90 days.

Within weeks of arriving at Bancorex last spring, the new management set to work on a restructuring plan which, says Mr Andrei, would "safeguard the bank's core businesses and make the bank look as sexy and attractive as possible for privatisation". To that end they contracted NM Rothschilds, the London investment bank, as financial advisers.

Bancorex and Rothschilds came up with operational and financial restructuring plans for the bank that involved transferring $665m of non-performing assets to the recently formed Bank Asset Resolution Agency, with the cost to the state spread over 10 years.

"This would have minimised the cost to the [state] budget but it would have solved 65 per cent of the non-performing loan problem," says Mr Andrei. The remaining 35 per cent of non-performing assets, most of which, says the bank, stem from companies which make operating profits, would be rescheduled.

Under the plan, the non-performing loans transferred to the Bank Asset Resolution Agency would be packaged for debt/equity swaps. "We do of course have guarantees on our exposure, and we own today a lot of assets and equity. We have started to prepare packages of industrial assets from the shipping, textile, furniture, poultry and other industries," says Mr Andrei.

"These could attract quality investors, who would gain significant market share in the Romanian economy," he says.

The World Bank, says Mr Andrei, "took a very brutal approach: liquidate the bank". This is "definitely not an option," he says, "because of the costs incurred by the bank and the country as a whole."

The World Bank's second option was to extract the full amount of non-performing loans from Bancorex's books. But this, says Mr Andrei, would have been difficult for the government to support in a country "facing a huge external debt, a trade deficit of about $2.5bn, contracting GDP and shrinking industrial output".

If Mr Soare goes it would be a "trade off with the World Bank to save Bancorex", says a senior Bancorex manager, adding that the bank's entire management team is "not very happy with the World Bank's attitude". The World Bank has rejected five different restructuring proposals put forward by Bancorex and Rothschilds since last November.

For its part, the government earlier this month decreed the transfer from Bancorex to the Bank Asset Resolution Agency of 4,182bn lei ($337m) of non-performing assets. In exchange, Bancorex received a state bond of equivalent value that carries no interest and falls due by March 31 2000. The bond will be financed by the finance ministry.

Mr Andrei says that as soon as Bancorex, Rothschilds, the World Bank and the government reach agreement on a rescue package, "we will immediately prepare the pitch and the roadshow for privatising the bank".

The privatisation plan includes trying to attract both strategic and multilateral investors, to be followed by an initial public offering. "Whoever buys this bank will have access to one fourth of M2 and have a say throughout the economy," says Mr Andrei.

But speed is of the essence. "Today, Bancorex is not politicised," says Mr Andrei.

"But nobody can guarantee that next year's general election will not change that. Therefore, quick and transparent privatisation is essential."

Moody's raises doubts on reforms

Moody's Investors Services, the US credit rating agency, yesterday assigned a speculative Caa1 rating to Romanian domestic currency obligations, saying that "prolonged delays in privatisation and structural reform have bought the economy to the verge of a financial crisis", writes Joe Cook.

Romania risks defaulting on foreign debt service payments of $2.9bn which are due this year unless the country can reach agreement with the International Monetary Fund over a new loan accord.

A team from the Fund is currently holding talks with a government delegation led by Traian Remes, the country's finance minister.

"The resumption of multilateral financing will be a crucial determinant of whether a financial crisis and default can be avoided," said Moody's.

The government is understood to be seeking IMF loans of some $450m, which would in turn unlock World Bank and EU credits. Analysts believe that $1bn would be enough to help Romania avoid default.

Finance minister Traian Remes: leading delegation to IMF talks EPA

Sweden losing the fight against GM foods

By Nicholas George in Stockholm

Swedish animal feed suppliers have indicated they may soon be forced to give up their ban on genetically modified fodder, even though the country is one of the few in the world whose farm industry has taken a stand against GM animal feeds.

"It is a losing battle and I don't think we will stay GM-free past the year 2000," said Kjell Larsson from the Swedish Farmers Supply and Crop Marketing Association.

Sweden prides itself as having the world's most environmentally conscious agriculture and Swedish agriculture has tried to profile itself as the world's cleanest, with a ban on the routine use of antibiotics, strict controls on pesticide use, an almost total absence of salmonella and moves to outlaw battery chicken rearing.

But the country's animal fodder industry is struggling to secure supplies of non-GM soya beans meal for use in dairy and meat production, as the amount under cultivation dwindles.

Since 1996 the Swedish dairy and meat producing industry has stopped the use of GM animal feed as a result of pressure from food retailers and consumers who were concerned about the possible long term risks involved with the products.

In the past two years Sweden has imported around 350,000 tonnes a year of non-GM soya meal, mainly from Brazil. However next year even Brazil is likely to start growing GM soya crops.

Mr Larsson said that even now it was impossible to guarantee 100 per cent non-GM feed as even feed that was imported from Brazil had a trace of GM crops in it.

This was probably a result of contamination in bulk shipping and handling facilities during transport to Sweden.

"As a feed supplier we try to meet the requirements of our customers but the possibility of doing this will reduce dramatically in the year 2000," said Mr Larsson.

He said farmers who wished to avoid the use of GM crops in animal feed would have to rely on grass, silage and wheat, but that this was likely to prompt a 15-20 per cent fall in yield.

Katarina Malmstrom from Arla, the country's largest dairy producers co-operative, said the ban had been made as a result of pressure from customers.

"The customers don't want to have it and we do not know the long term risks of its use," she said.

Swiss ski resorts see heavy snowfalls but light revenues

By William Hall in Zurich

Switzerland's ski resorts, having suffered from years of too little snow, now find that they have too much.

The Gotthard tunnel, Switzerland's main trans-alpine route, has been blocked for days. The only way in or out of some of Switzerland's top resorts has been by helicopter and even they were mostly grounded yesterday by bad weather.

Although the airports of Zurich and Geneva are now back to normal, most of Switzerland's mountain passes are blocked and the risk of avalanches has brought skiing to a halt in resorts as far apart as Andermatt and Saas Fee.

In Davos only 8 of the 54 lifts were working yesterday and in St Moritz only six out of 24 lifts were operating. Road and rail links to Grindelwald, one of the most popular destinations in the Bernese Oberland, have been blocked for days. Zermatt, Adelboden and Saas Fee have been also out of bounds.

Joe Luggan, head of Grindelwald's tourist office, says that he has never seen so much snow in his 29 years in the job.

The town is losing up to SFr200,000 ($139,000) a day becauses daily ski visitors are prevented from using its facilities. Tourists wanting to leave have to pay SFr100 ($70) for a helicopter trip out. But yesterday even that exit route was blocked by low cloud.

One of Switzerland's best known mountain railways up to the neighbouring resort of Mürren, where Sir Henry Lunn first spotted the commercial potential of skiing, has been blocked for more than a week because of the risk of avalanches.

Andrea Cova, owner of the Falken hotel across the valley in Wengen, says his resort has never had such heavy snow since records began over 50 years ago and his 87-year-old mother cannot remember anything like it.

There is between three and four times as much snow as normal and some hotels have had to be evacuated because of the avalanche danger.

Steve Garley, managing director of Thomson Breakaway, the UK winter sports operator, says last weekend was "one of the most challenging" in his experience.

Although Austrian resorts, such as St Anton, have been cut off by road, they have still had rail access. He believes that Switzerland has been the worst hit of all the Alpine destinations. But he is not pessimistic. "We are on the verge of some of the best skiing conditions," he says. The weather changes so quickly in the Alps that yesterday's closed resort can quickly become tomorrow's ski paradise.

INTERNATIONAL

PRESIDENTIAL CONTENDER'S PROPOSAL PLAN WOULD HELP RADICAL RESTRUCTURE OF COUNTRY'S ESTIMATED $29BN EXTERNAL DEBT

Nigerian candidate suggests selling some state oil assets

By William Wallis in Lagos

Olu Falae, one of the two contenders in Nigeria's presidential election this Saturday, said yesterday he would be prepared to sell off part of the government's 60 per cent stake in the oil sector as part of a radical restructuring of the country's estimated $29bn external debt.

It is the first time a leading Nigerian politician has made such a proposal. Chief Falae said the move would accompany rescheduling of the $21bn owed to the Paris Club of official creditors, over $16bn of which represents arrears.

The lowest oil prices for 12 years have seen Nigeria's foreign exchange earnings fall sharply, contributing to its most serious economic crisis since independence. Rescheduling is seen as an essential element in the country's recovery effort.

Officials at Britain's Export Credit Guarantee Department, which is owed at least $5bn, have been calling for evidence of government commitment to tackling arrears.

"I want to get to grips with the debt problem and get to the level where development can start again and investment can come in again," Chief Falae, a former finance minister, said in an interview with the Financial Times.

'I want to get to grips with the debt problem and get to the level where development can start again and investment can come in again'

"We have first-class assets, like our equities in the oil-producing companies.

"As part of a package, we may decide to divest a portion of what we hold to have the cash to back a debt strategy."

By selling off 10 per cent of government shares in oil joint ventures, more than $8bn could be raised, he added. Until recently, public opinion has been stacked against the sale of government assets in the oil industry. The fact that Chief Falae has raised it during his campaign is an indication that attitudes may be changing.

Nigeria's 2m b/d of oil, most of it produced in joint ventures with the multinationals, accounts for more than 90 per cent of foreign exchange earnings.

At current prices, and without rescheduling, external debt arrears will climb further.

Last year's scheduled debt-service was $4.4bn. The 1999 budget provides just $1.7bn for servicing foreign debt, implying that $2.5bn in of arrears, on top of the $15bn already accumulated, will be incurred.

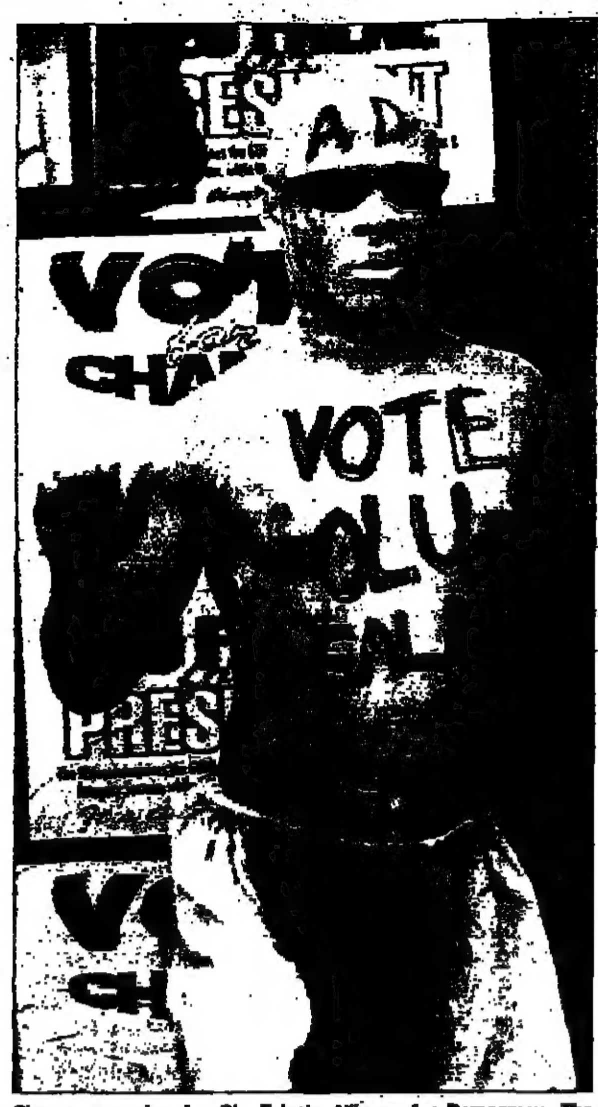
Any rescheduling pact will depend on the incoming civilian government keeping to the terms of a recent policy agreement with the International Monetary Fund. Chief Falae would not commit himself: "We will have to wait and see what the situation is when we take office. We consider all options open," he said.

He is running as the joint candidate of two parties: his south-western regional party, the Alliance for Democracy, which advocates radical change and devolution, and the All People's Party, a coalition of business magnates and establishment politicians.

Latest results of Saturday's assembly and Senate elections yesterday gave the People's Democratic Party (PDP), whose candidate is former General Olusegun Obasanjo, 194 seats in the 360-seat assembly against 127 for the other parties.

The PDP was ahead in the 109-seat Senate with 59 seats to the alliance's 39. Most observers make Gen Obasanjo front-runner for president, but Falae officials say that Senate and assembly voting is not a reliable guide to the outcome.

See Nigeria survey



Clowns campaign for Olu Falae's Alliance for Democracy. The presidential candidate suggests selling state oil assets Reuters

IRAQI PROTESTS OPPOSITION GROUPS SAY OVER 100 DIED IN SADDAM CITY FOLLOWING DEATH OF SHIA CLERIC

Baghdad denies killing scores of rioters

By Roula Khalaf in London

Iraqi opposition groups accused the Iraqi regime yesterday of killing scores of people to put down riots sparked by the death of a senior Shia cleric.

Baghdad immediately denied the allegations and said no unrest had ever taken place. "What is being alleged by foreign media and circles on the so-called disturbances in a number of provinces ... is a figment of imagination," said Uday al-Tai, head of the official Iraqi news agency.

Reports on the number of deaths are difficult to verify, but several Iraqi opposition sources in exile said over 100 people had died last weekend in Saddam City, an overpopulated, poor Shia suburb of Baghdad, following the killing of Ayatollah Mohammed Sadeq al-Sadr and two of his sons.

Western diplomats confirmed that serious unrest had broken out in Saddam City and in the southern holy city of Najaf, 150km south of Baghdad. The ayatollah was a popular figure whose relations with the government are believed to have soured in recent months. His killing fuelled cries of outrage from Iran and from the Shia community in Lebanon. Iraqi Shia opposition groups and Tehran blamed the killing on the government, a claim denied by Baghdad.

Diplomats said there were no visible signs of problems in the capital yesterday, or extra security measures taken, suggesting that security forces may have put an end to disturbances around Baghdad.

The United Nations humanitarian office said UN observers who travel around the country to ensure that food bought under the oil-for-food exemption to UN sanctions is equitably distributed had been able to travel to Najaf at the weekend.

The government disputed claims by an Iran-based Shia opposition group of continuing unrest in the south and said it would take foreign reporters to prove its point. But officials at the London-based Khoei Foundation, a Shia institution in London, said they had received information that Najaf was yesterday tense. It was still surrounded by Iraq's elite Republican Guards and rocket launchers had been stationed in several neighbourhoods.

The new tensions in Iraq have overshadowed Baghdad's attempts to focus attention on the continuing military conflict with the US and Britain over the southern and northern no-fly zones.

Baghdad said yesterday that attacks by US and British aircraft had killed one person and wounded several others. US military officials said F-15 fighters had bombed anti-aircraft guns and radar sites near the northern city of Mosul after being fired on by Iraqi forces. US jets also attacked air defence sites in the south.

The no-fly zones were set up after the 1991 Gulf war to protect the Shias in the south and the Kurds in the north. After the four-day US and British air-raids on Iraq last December, Iraq said it would challenge the no-fly zones and has since been firing on US and British jets.

NEWS DIGEST

JORDAN'S ARMY

King Abdullah dismisses four top generals

King Abdullah of Jordan has dismissed four senior army generals, the first personnel changes he has made since becoming king this month after the death of his father, King Hussein. The dismissals, said officials, were part of the king's strategy of modernising the army as well as promoting a younger generation of officers.

King Abdullah, 38, spent 14 years as a career soldier, serving until recently as commander of the special operations command, the army's elite force.

The most senior general to be sacked is Tahseen Shurdum, the second in command and head of ground operations for nearly a decade, and tipped at one stage to become joint chief of staff of the armed forces. He was a senior member of the Jordanian team which signed a peace treaty with Israel in 1994. The other three generals are Eid Rweidan, chief of military intelligence, Hamzeh al-Azb, head of personnel, and Mohammad Abbadi, head of administration. All four were assistants to Field Marshal Abdul-Hafez al-Kasbneh, joint chief of staff of the armed forces who was very close to King Hussein. He retains his post.

It was alleged that while crown prince, Prince Hassan, King Abdullah's uncle, had wanted to dismiss the field marshal for corruption. But instead, shortly before his death, King Hussein dismissed his brother as crown prince, accusing him of meddling in military affairs. **Judy Dempsey, Jerusalem**

ISRAELI ECONOMY

Lending rate cut to 13%

The Bank of Israel yesterday lowered its key lending rate for March by 0.5 percentage points to an annual 13 per cent, the first cut since last August.

The cut followed a fall of 0.5 per cent in the consumer price index for January, with expectations that inflation could fall to 4 per cent this year compared with 8.6 per cent in 1998. Jacob Frenkel, governor of the Bank of Israel, a staunch defender of tight monetary policy, said he expected the February consumer price index to be either nil or negative. Meanwhile, the European Union yesterday said Israel would join its research and development programme, allowing it to compete for $16.4bn joint research projects over the next four years. Britain, France, Holland and Belgium had wanted to block Israel's participation until it had revived last October's Wye peace accord with the Palestinians. **Judy Dempsey**

COMPENSATION FOR ABDUCTION

Egyptian ministry penalised

Egypt's interior ministry was yesterday ordered by a court to pay E£100,000 ($29,300) in compensation to the wife of a leading opponent of the Libyan government who was abducted while in Cairo and later killed.

The Cairo appeals court awarded the damages to Baha el-Emary, wife of the former Libyan foreign minister Mansour Kikhia. Mr Kikhia, who disappeared in 1993, became an outspoken critic of the Libyan leader, Muammar Gadaffi. His death followed a threat by the Libyan regime to eliminate its opponents. **Mark Huband, Cairo**

WORLD TRADE

US to test Beijing's stance on WTO entry

By James Kynge in Beijing

US officials were due to begin a series of visits to China today to explore possibilities for a deal on Beijing's entry into the World Trade Organisation before a new WTO round starts late this year.

Lawrence Summers, US deputy Treasury secretary, was expected to gauge the level of Beijing's enthusiasm for WTO entry at a meeting today with Zhu Rongji, China's premier. Mr Summers was also expected to meet Xiang Huaicheng, the finance minister, and Dai Xianglong, the governor of the People's Bank of China, the central bank.

Mr Zhu's attitude towards accession is seen as crucial. Analysts said the chances for a deal this year rested largely on his personal willingness to push for tariff and market liberalisation.

Chinese trade officials are studying possible concessions on trade and investment but Beijing has yet to signal that Mr Zhu will make any formal new WTO offer during his planned summit in the US in April.

The focus of recent talks between Long Yongtu, a Chinese vice- trade minister, and US officials in Washington this month was to appeal for concessions on Beijing's entry, officials said.

Mr Long asked for greater flexibility on the deadlines for China's compliance with WTO market access obligations. US officials said some flexibility on the length of transition periods to full WTO compliance was possible in certain sectors, but there was little room for ambiguity on deadlines.

The US is also understood to want to avoid agreements under which China can bunch up its commitments for phasing out tariffs and barriers towards the end of agreed transition periods. China, meanwhile, is hoping the US will reveal its "bottom line" of liberalisation demands for a WTO deal.

Such issues are expected to be addressed in meetings between Charlene Barshefsky, the US trade representative, Bob Cassidy, assistant US trade representative and Peter Scher, the US special agriculture negotiator, in the next two weeks. Madeleine Albright, the US secretary of state, is also set to visit Beijing before the end of February.

Mr Summers is expected to seek a further reassurance that China does not plan to devalue its currency.

US running out of answers as trade gap with Japan swells

Stymied by WTO rules and global economic concerns, Washington has scant chance of reversing a 33% rise in its deficit with Japan, report **Nancy Dunne** and **Michiyo Nakamoto**

Throughout Japan, provincial cities such as Fuji Yoshida, at the foot of Mount Fuji, are dotted with American-style shopping centres that cater to the increasingly diverse needs of the local population. In the large cities, names such as GAP and Eddie Bauer adorn the streets while outside the urban sprawls, US multiplex cinemas draw audiences to the latest Hollywood blockbuster.

American retailers and entertainment complexes are transforming Japan's landscape. But Japanese consumers' love affair with things American has yet to reverse the ballooning US merchandise trade deficit with Japan, which has risen to dangerously high levels again.

The latest figures show that the US trade deficit with Japan narrowed 2.2 per cent in January to Y487bn ($4bn), as a result of a fall in Japanese exports. But in 1998, the US deficit with Japan grew more than 33 per cent over the year to Y6,692bn.

The heat is again on the US government to do something about the imbalance.

Last month, Charlene Barshefsky, US trade representative, was driven to resurrect Super 301. This once-fearsome provision of US law – renewed under an executive order – is virtually useless because the US is now required to go to a dispute settlement panel in the World Trade Organisation to settle most of its differences with its trading partners.

With great vigour and decreasing optimism, the Clinton administration has already negotiated 35 bilateral trade pacts – covering everything from telecommunications to construction and housing, insurance and government procurement. Only a handful of these pacts have been successful. Washington has threatened, demanded, exhorted, and nagged, but the US merchandise trade deficit has continued to climb.

This is partly the result of the deepening recession in Japan and the continued strength of the US economy keeping US demand for Japanese products high. But US exporters still find many non-tariff barriers stubbornly intact.

To be sure, the foreign share of markets in a wide range of products – from housing to beef and semiconductors – has risen sharply in the wake of bilateral agreements.

The recession, which has weakened many domestic companies, has also opened up opportunities for foreign businesses.

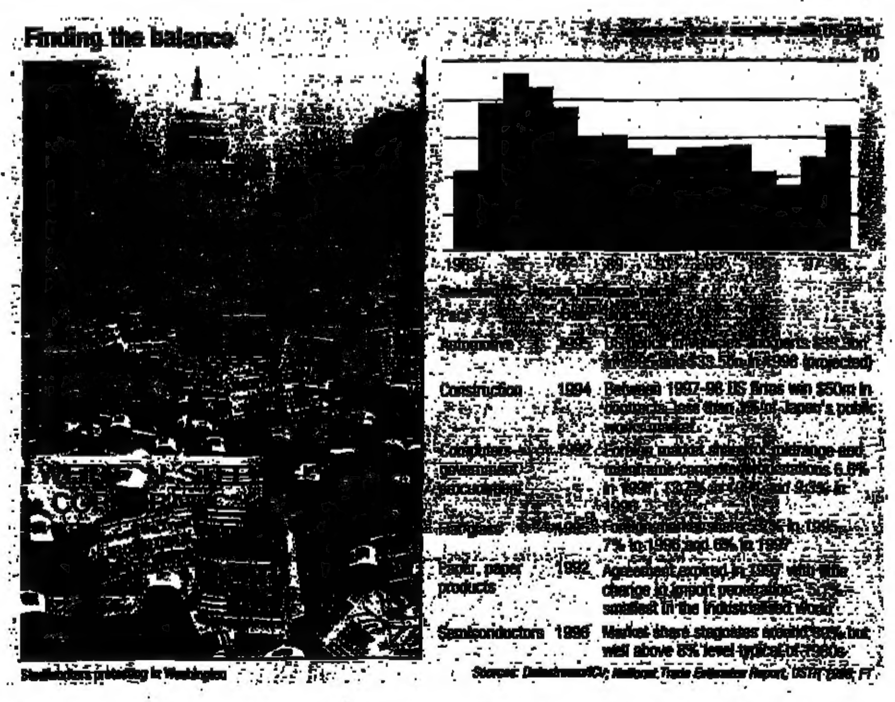
"There has not been a better time for foreign companies to make inroads as there is now," says a US businessman in Tokyo.

But the changes fall below the expectations of Japan's trading partners. US officials said last week they had seen little significant movement on the much-trumpeted "enhanced deregulation initiative" between the two countries.

"In most of the procurement agreements – particularly in the past year or two, the initial progress has stalled and even been reversed in some cases," says a US trade official in Washington. "The economy is one reason, but we also think they are testing us. Maybe Japan thought we weren't paying as much attention as we are."

Although Japan won plaudits for repealing its restrictive Large Scale Retail Store law, US officials complain about a recent Japanese government decision to freeze new construction of large stores for up to 18 months or more.

US suggestions for strengthening fair trade and competition laws within Japan have been virtually ignored. "Japan has built a highly cartelised society," says Steve Clemons of the Economic Strategy Institute. "Talking about deregulation is standard for the course. The questions and problems have been the same for 20 years." In particular, where business practices, rather than specific regulations, provide the main obstacle to foreign penetration, change has been slow. Bilateral negotiations on opening up the market for flat glass, for instance, go back eight years.



Although an agreement was reached in 1994, "the three Japanese manufacturers have much the same market share as they have always had", says one US official.

The problem is that the large Japanese manufacturers have locked up the distribution system. "The wholesaler is afraid that if they handle even a little bit of the foreign product ... his relationship with his traditional customer will be jeopardised," says the US official.

In some cases, the recession has even strengthened these ties. Ms Barshefsky's response options are limited. She can no longer credibly threaten bilateral sanctions. Tokyo's response is simply that it would then complain to the WTO about unauthorised retaliation, and the US would face an embarrassing defeat.

She also has to contend with the State Department, Pentagon and Treasury, which have forced her to pull her punches on grounds of national security and Japan's weakened economy.

The US had created "a real mess", when it virtually gave up its option to impose bilateral sanctions by joining the WTO, says Mr Clemons. "It will take the clarity of an economic disaster – and major job dislocation – before there is real change in Japan," he believes. The WTO has offered some US successes, such as in the liquor market, where a ruling against Japan forced the government to lower tariffs on a range of imported spirits.

But there are many issues that the WTO does not cover, particularly competition policy, which is central to many of the problems foreign companies face in Japan.

That leaves the US few options other than old-fashioned muscle-flexing behind the scenes.

With pressure from the steel industry and others mounting, the next several months will test whether the Clinton administration has the necessary resolve.

NEWS DIGEST

WORLD TRADE ORGANISATION

Deadline set for choice of successor to Ruggiero

World Trade Organisation members have set March 12 as their new target date for selecting the next director-general to succeed Renato Ruggiero of Italy, after missing two deadlines of mid-December and mid-February. Mr Ruggiero's four-year term and the terms of his three deputies end on April 30.

At the last count Supachai Panitchpakdi, Thailand's deputy prime minister, was leading the field of four candidates, followed by Hassan Abuyoub of Morocco, Canada's Roy MacLaren and Mike Moore of New Zealand. However, Mr Moore has the most second-choice votes, which puts him in a strong position since the appointment must be made by consensus.

Mr Supachai yesterday denied he was planning to withdraw from the race because he lacked US support. Although Washington has made no public announcement, US officials say the administration backs Mr Moore and Mr MacLaren equally. Mr Supachai was cautious yesterday on his prospects, saying the choice would be determined by "global politics". **Frances Williams, Geneva**

CONFERENCE ON GMOs

Talks may run out of time

Frustrations were running high yesterday morning as negotiations to hammer out the details of a UN biosafety protocol governing the international movement of genetically modified organisms (GMOs) appeared to run out of time and options.

"There are still significant outstanding issues to be resolved," said Rafe Pomerance, spokesman for the US delegation to the conference, a follow-up to the 1992 Convention of Biodiversity signed in Rio.

Delegates from 170 countries meeting in Cartagena, Colombia, have so far failed to agree on fundamental trade issues within the protocol as well as important mechanical issues to make the agreement applicable in practice. Over the weekend, small groups working behind closed doors agreed to exclude commodities and pharmaceuticals from the protocol, a point favoured by countries such as the US, Canada, Australia, Mexico and Argentina, some of the main exporters of GMOs. But today is the last day for negotiations, now in their 10th day, and delegates, complaining of remaining ambiguities and a lack of transparency governing the course of negotiations, doubt consensus will be reached. **Adam Thomson, Cartagena**

US DEPARTMENT OF AGRICULTURE

Forecast on exports cut

Weak demand in some economically troubled regions, coupled with plentiful supplies of farm produce, yesterday prompted the US Department of Agriculture to cut its forecast for exports in 1999 to $49bn, down by $1.5bn from its previous estimate late last year. This would be $4.6bn less than in 1998 and well below the peak figure of $59.8bn in 1996. Imports are also likely to rise, by about $1bn from the 1998 level, to $38bn. The loss of exports comes as US farm incomes are being squeezed by low commodity prices. The US Congress last year agreed a $6bn relief package, but it is unclear whether similar help will be forthcoming in 1999. **Nikki Tait, Chicago**

RDAN'S ARMY

ing Abdullah dismisses our top generals

SRAELI ECONOMY

Lending rate cut to 13%

COMPENSATION FOR ABDUCTION

Egyptian ministry penalised

WORLD TRADE ORGANISATION

Deadline set for choice of successor to Ruggiero

CONFERENCE ON GMO

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US DEPARTMENT OF AGRICULTURE

Forecast on exports cut

South Korea 'well ahead' on foreign reserves target

By Peter Montagnon and John Burton in Seoul

South Korea is well ahead in meeting its target for foreign exchange reserves and the government will not need to launch new international borrowings even though its investment grade credit rating has been restored, Lee Kyu-sung, finance minister said yesterday.

The reserves, currently around $50bn, should reach the target of $55bn for the year as early as June, thanks partly to a continuing strong surplus on the current account of the balance of payments, he said in an interview.

South Korea has to meet a heavy schedule of debt repayments this year, including $9.7bn to the International Monetary Fund and $3.8bn to international banks who rescheduled the country's short-term bank borrowings in the wake of last year's economic crisis. "Even with that our reserves won't decline," Mr Lee said.

The government did not need to borrow in its own right but some public sector entities, including Korea Development Bank, Korea Eximbank and KEPCO, the electric utility, might return to the market to refinance maturing long-term debt, he added. Some private sector entities might also take up borrowings, although this sector should also receive a boost from foreign direct investment which the government expects to rise to around $15bn, measured on a commitment basis, from $8.9bn last year.

After the shock of the economic crisis of December 1997, when South Korea's reserves were virtually exhausted, the government is widely thought to want a substantial cushion of reserves. Mr Lee acknowledged that opening the country's capital markets had made it more vulnerable to international money flows of money, but said that $50bn was now considered a sufficient minimum.

The minister brushed aside the concerns of private sector economists that the current recovery would prove short-lived. Pessimists such as Stephen Marvin of Jardine-Fleming [illegible] that Korea could be heading for a Japanese-style pattern of weak growth alternating with outright recession because of failure to follow through on economic restructuring.

Mr Lee said the economy would return to its trend rate of growth of 4-5 per cent from next year after 2 per cent growth in 1999.

Even this would leave a structural unemployment rate of around 5 per cent, he admitted. But this would still be below the 7.5 per cent average rate expected for this year. Besides, the government could afford to finance the necessary welfare payments without compromising its target for balancing the budget deficit, currently 5.5 per cent of gross domestic product, by 2006.

"By then a higher proportion of its spending would come from welfare payments and less on big projects for state enterprises. Korea's large-scale privatisation programme would help promote the change in mix, he said. "We are heading towards small government."

Australia gives business tax reform clues

By Gwen Robinson in Sydney

The Australian government yesterday gave the first clear indication of the direction of controversial business tax reform proposals, drawn up as part of a sweeping tax reform package announced late last year.

Peter Costello, the treasurer, said the government was considering lowering the rate of capital gains tax and would abandon plans to tax managed funds and publicly held unit trusts as companies.

Mr Costello spoke after publication of a report by the government's advisory panel on business tax reform. The panel, headed by John Ralph, the chairman of Fosters Brewing group, was established after the government set out proposals last August to overhaul the tax system and introduce a 10 per cent goods and services tax (GST).

Business tax changes would be central to the GST proposal, set out in last year's election by the prime minister, John Howard, and partly aimed at blocking corporate tax loopholes.

At the same time, the government has become increasingly anxious to attract more foreign investment and prevent Australian companies moving offshore. It recently launched a campaign to promote Australia as a regional financial centre and has been emphasising likely changes in capital gains tax and personal tax rules for expatriates as part of its push.

The 1,000-page report of Mr Ralph's committee set out options and recommendations on key aspects of business tax, including suggestions to reduce the corporate tax rate to 30 per cent from 36 per cent and to reform the unpopular fringe benefits tax on non-cash benefits to employees. However, the committee said it would not recommend specific changes until it held further talks with business leaders and presented its final report by the end of June.

Mr Costello took the unusual step of announcing the government's decision to abandon earlier proposals to treat public trusts such as property, cash management and bond trusts, as companies for tax purposes.

Such investments would continue to be subject to so-called "flow through" taxation, which would ensure there was "no adverse cash flow effects on people receiving distributions of assessable income from cash management trusts," Mr Costello said. Instead of being taxed at source, as initially proposed, income earned and distributed by cash management trusts would be taxed in the hands of individual investors at their marginal tax rates, he said.

Howard seeks E Timor talks

By Gwen Robinson in Sydney

Australia has launched an unprecedented diplomatic push in Asia and the Middle East, aimed first at securing a leading role in Indonesian deliberations over the future of East Timor and shoring up regional relations.

After meetings in south-east Asia, Australian government and business leaders will visit Portugal, Iran and India later this week. This will be the first official visit to Iran by an Australian minister in more than five years and the first to India since Canberra's protests over Indian nuclear tests last May.

The Iran and Indian visits highlight Australia's growing push to expand and diversify export markets away from east Asia. But it is Indonesia's recent policy reversal on the future of East Timor that will dominate Canberra's agenda.

Australia was the only western country to recognise Indonesia's annexation of the former Portuguese colony in 1976. The conservative coalition government of John Howard recently shifted policy to support some form of autonomy for the troubled island.

But Canberra was unprepared for Jakarta's abrupt announcement earlier this month that it would grant full independence to East Timor next January if its offer of autonomy was rejected. Mr Howard last week warned of heavy costs for Australians and potential regional instability if East Timor – one of Indonesia's closest points to Australia – became independent overnight.

Australian officials confirmed yesterday that Alexander Downer, the foreign minister, would present proposals in Indonesia for an orderly transition in East Timor. He will press President B. J. Habibie and the East Timorese resistance leader Xanana Gusmao, among other leading figures, for an extended period of autonomy for the island. The Australian proposals will also include offers of aid and possibly a leading role in a peacekeeping force on the island, officials said.

In Portugal, Mr Downer will ask the government to provide assistance for East Timor's orderly transition. Australian officials cast doubt on prospects for current talks between Indonesia and Portugal over East Timor at the United Nations in New York.

Relatives of prisoners hold up placards demanding the release of all prisoners at a Seoul rally yesterday AP

S Korea amnesties long-serving prisoners

South Korea announced an amnesty yesterday for nearly 9,000 offenders, including freedom for a former North Korean soldier jailed 41 years ago, agencies report from Seoul.

Woo Yong-gak, 71, would be one of 17 long-term prisoners to be released unconditionally on Thursday under an amnesty to mark President Kim Dae-jung's first year in office, said the justice minister, *Park Sang-cheon.*

The 17, all convicted spies and held for between 29 and 41 years, have refused to sign an oath to obey South Korean laws, including one making it a crime to espouse communism, saying that *doing so would violate their* freedom of conscience and *endanger their families in* the North.

Mr Park said the government had decided not to demand an oath from them as a condition for their release.

CULTURE GAP 'INTEREST MUST BE PAID' ☐ BANKS 'DON'T REALISE THEY'LL HAVE TO TAKE LOSSES'

Japanese banking 'dogma' blocks Indonesian debt rescue

By Sander Thoenes in Jakarta

A little known and less understood culture gap between Japanese and western bankers stands in the way of billions of dollars worth of Indonesian debt restructuring.

The gap has become apparent in the past few days in the case of Astra International, which produces cars and motorcycles with Toyota, Honda and a host of other, mostly Japanese, partners. For months it has been struggling to renegotiate debt payments with its creditors, but the Japanese banks which are its main lenders have so far refused to accept Astra's claim that it cannot make the interest payments in full.

"Restructuring is something they're not used to," *said Rini Soewandi, Astra's* president director. "They do not know what to compare us with."

Other negotiations on large chunks of some $80bn *in corporate offshore* debt have also stumbled over Japanese insistence that, while principal payments can be delayed, the full sum plus interest must eventually be repaid.

"It is a dogma," said Seiichoro Shimamoto, chief representative in Indonesia of the Export-Import Bank of Japan. "Interest should be paid." Furthermore, says Mr Shimamoto, the debt write-offs usually involved in restructuring, known as "haircuts" are taboo.

That dogma has exasperated western bankers, many of whom have already made provisions for Indonesian loans and are willing to accept partial payment before the cash flow of the borrowers deteriorates further. "The cake is getting smaller," one European banker said. "The [Japanese] banks just don't realise yet *they'll have to take losses.* Boys, bite the bullet."

Part of the Japanese aversion to restructuring, as opposed to mere rescheduling of payments, simply *reflects the dire state of Jap*anese banks, many of which cannot afford to make the necessary provisions. Japanese banks also have much larger exposure than most of their western counterparts.

But Japanese bankers also do not believe restructuring works in the long run.

"A 'haircut', I don't understand why that becomes a solution," said the Jakarta representative of a big Japanese trade house. "Once we make a 'haircut', we say – no more business with that company. If they don't pay interest our exposure increases. Our ratings will drop. So we don't like it, and many Indonesian customers also don't like it."

Mr Shimamoto said the focus on interest payment also reflected the high value Japanese bankers put on business relationships, rather than mere number *crunching. "The relationship* between a lender and a borrower is one of equal footing, of trust," he said. "The interest is the cost of the money that is needed for lending. If you get no interest back you are giving very benevolently. No more trustworthy relationship."

"Inside a business group, it is done," he added. "If a company has invested in the other, if it is a father and son relationship, it is different."

Even that relationship is coming under strain, however, as Japanese banks struggle to stay afloat. Mr Shimamoto's bank, a government agency, has quietly bailed out Japanese joint ventures with more than $2bn in loans because Japanese commercial banks can no longer stick to the tradition of supporting affiliated business.

Similarly, the premise of sticking to payment in full is crumbling because Japanese banks can no longer promise new loans. "Now, because of the economic constraints, *you can't just stick to the* warm, emotional economic relationship any more," Mr Shimamoto said. "Because of the power of the rating agencies, because of globalisation, the banks have completely changed."

NEWS DIGEST

WORSE TO COME AS COMPANIES CUT BACK

Hong Kong unemployment creeps higher to 5.8%

Hong Kong unemployment inched higher last month and both government and private sector economists warned of *further increases this year.* The territory's workforce is braced for further cuts in the lunar new year, which began last week, as companies opt to close down or prune their overheads.

Unemployment reached 5.8 per cent for the three months to January, according to government figures *released yesterday, up from a revised* 5.7 per cent for the three months to December. Hong Kong's historically negligible unemployment has risen sharply in the past year as the territory veered into recession. Even companies which have not made big job losses have pruned costs by cutting or freezing wages, and in some cases withholding the *traditional lunar new year bonus.*

Joseph Wong, secretary for education and manpower, said continued adjustments within the economy suggested unemployment was likely to remain high in the near future.

However, he pointed to glimmers of optimism, including growth in tourist numbers, financial aid packages to small *and medium-sized enterprises, and the start of several big* infrastructure projects. **Louise Lucas, Hong Kong**

INDONESIAN POLL

EU to help fund elections

The European Union yesterday agreed to give increased financial support to June's elections in Indonesia to ensure they are held in a "free, fair and credible" manner.

Foreign ministers agreed the EU should provide €7m ($7.8m) to support the elections compared with €2m originally proposed by the European Commission. The funds would help cover the cost of voter education programmes, led by local non government organisations, and a team of EU election observers.

In addition, member states can also provide bilateral support. Declaring she was "delighted" with the agreement, Joyce Quin, the UK minister for Europe, announced Britain would provide an additional $2m.

"In informal discussions, the foreign ministers meanwhile continued to insist that Burma should not be represented at ministerial level at next month's planned meeting inn Berlin of foreign ministers from the EU and the Association of South East Asian nations (Asean) because of its poor human rights record. As Asean appears determined to include Burma in the meeting, it is likely to be cancelled. **Peter Norman, Luxembourg**

VIETNAM BORDER

China clears minefields

China will clear all landmines from the Sino-Vietnamese border by the end of this year as part of the largest ever construction drive in the border region, the China Daily said yesterday. It said soldiers had already cleared 66,500 mines from 120 sq km in the south-western provinces of Yunnan and Guangxi which border Vietnam.

At least 800,000 mines were laid in the two provinces during a bloody border conflict between China and Vietnam in 1979, when Beijing wanted to punish Hanoi for its invasion of Cambodia a few months earlier.

Earlier this month, a regional newspaper said Chinese troops cleared more than 280,000 mines and unexploded bombs from border areas in Yunnan in a seven-month operation which had just ended. **Reuters, Beijing**

CHINESE ECONOMY

Officials impose random fees

*China has disciplined 1,273 local officials for imposing ran*dom fees on businesses, the official Xinhua news agency said yesterday. It did not say what action had been taken against the officials, but said more than 18,000 cases of arbitrary levies had been dealt with. Last year, the central government had abolished 973 such levies totalling *Rmb45bn ($5.4bn) a year because they were crippling* many local enterprises, it said. **Reuters, Beijing**

Licence delays put Bangladesh natural gas projects on hold

Interest has waned because of red tape and low energy prices, writes **David Chazan** in Dhaka

The second foreign-operated natural gas field in Bangladesh began production recently but further gas projects have been blocked by delays in awarding exploration and production licences.

International interest in Bangladeshi gas has waned in the past 18 months because of delays and also because low energy prices *have forced many companies* to scale back their operations. The Jalalabad field in the northern district of Sylhet, operated by Occidental and Unocal of the US, came on stream earlier this month.

The field will produce about 100m cu ft a day, bringing the country's total gas output to more than 900m cu ft a day. The first foreign-operated gas field, an offshore facility operated by Cairn of the UK, in partnership with Shell, began production last year.

Sheikh Hasina: 'We are not sure how much gas we have' Reuters

Petrobangla, the state-owned energy company, has *refused to allow Cairn to* increase production from 100m cu ft a day to 160m cu ft, saying the offshore rig has been unreliable. But analysts said the reason could be that as Bangladesh has to pay for some of the gas, Petrobangla and the government may be reluctant to spend more hard currency. Cairn has subsequently transferred responsibility for day-to-day *operations at the field to* Shell.

Analysts said that with its greater resources, Shell might be more successful in resolving the issue if it became the operator of the field.

Nigel Hopkinson of Occidental said the gas produced at Jalalabad, an onshore field, would cost Bangladesh some $30m-$40m a year; cheaper, analysts say, than the gas produced by Cairn and Shell because it costs more to operate offshore fields.

When Bangladesh invited bids for natural gas exploration and production rights in 1997, the government was overwhelmed by the enormous interest shown by oil and gas companies. "The whole world seemed to be knocking at our door," said a Bangladeshi official involved in awarding production sharing contracts (PSCs). "Looking back, we probably weren't ready, and perhaps our mistake was trying to offer too many blocks and promising too much."

The Bangladeshi government repeatedly missed deadlines which it had announced for awarding the contracts. When it invited gas companies to begin a new round of PSC negotiations this month, several backed out.

The government may have delayed because it is unsure what to do with its gas. Most companies now want guarantees that they will be able to export some gas before embarking on expensive exploration programmes.

The obvious export market is India, which has a severe energy shortage. But with the Bangladeshi opposition frequently accusing the government of selling out to India, any decision to export gas could be politically explosive in the run-up to the general election promised by the government next year.

Many gas company executives have also lost enthusiasm in the face of the ponderous bureaucracy in Bangladesh. "Business in this country moves at the pace of a bicycle rickshaw," one executive complained. "What normally takes a week can take months here."

Fewer than 100 wells have so far been drilled in Bangladesh, but experts are convinced that substantial reserves of natural gas lie underground and offshore, under the Bay of Bengal.

Shell estimates the reserves at 30,000bn-50,000bn cu ft, a sizeable amount which could give the economy of one of the world's poorest countries a much-needed boost. Sheikh Hasina, the prime minister, who has taken personal responsi*bility for gas, said further* exploration would be needed before deciding whether to export.

"We are not sure yet how much gas we have and whether it will fulfil our domestic demand. So unless we could judge that, how can I say that we can export?" she said. "If we have enough, then we can think of it."

Only 14 per cent of Bangladeshi homes have electricity, and the government is hoping further gas projects will help expand the network. Several gas-fuelled power stations are being built, but up to 40 per cent of the electricity in the national grid is "lost" or taken by consumers without paying.

Bangladesh's domestic gas network is also very limited. Few households have piped gas, and 80 per cent of the estimated 900m cu ft of gas produced per day now goes to industry or is used to produce fertiliser, a commodity that currently fetches low prices on the international market.

US PERFORMANCE KANSAS CITY FED PRESIDENT HOENIG ACKNOWLEDGES EVERYONE HAS BEEN TOO PESSIMISTIC

Fed underestimated economic boom

By Gerard Baker

Looking out from his offices high above the American heartland, Tom Hoenig probably has as good a view as anyone of the remarkable strength of the US economy. The president of the Kansas City Federal Reserve, a key member of the Fed's policy-making open market committee, admits he has seriously underestimated the economy's performance in the last few years.

"At the start of 1997, I projected growth would slow to near trend [about 2.5 per cent]. In 1998, I projected growth would slow to near trend. Do you really want my projection for 1999?" he smiled, during an interview at the end of last week.

Mr Hoenig is in good company. When Alan Greenspan, the Fed chairman, gives his half-yearly Humphrey-Hawkins testimony on the outlook for the US today, he may well suggest that this year's forecasts be taken with even more caution than usual. Like Mr Hoenig's and those of all economists inside or outside the Fed, the central bank's estimates have been far too pessimistic – not only on growth, but also on inflation.

The question is how long can it go on. "We're off to a strong start in 1999, but, yes, I'm still expecting the economy to slow," says Mr Hoenig.

Having survived intact the international turbulence of the second half of 1998, the US is unlikely to slip anywhere near a recession, Mr Hoenig believes. While global weakness, in Latin America and increasingly in Europe, is likely to damp US growth and widen the current account deficit, the overall picture remains well balanced.

Mr Hoenig believes, in fact, that the principal uncertainty remains the risk of an impossibly tight labour market. The vast Federal Reserve district over which he presides has experienced the most extraordinary surge in jobs of any region in the country.

Although employment growth slowed somewhat last year, some cities, such as Omaha, Nebraska, have an unemployment rate below 2.5 per cent.

Past economic history would suggest wage growth ought to be accelerating rapidly in these conditions, but pay increases have in fact remained subdued. Explaining this unusual phenomenon is difficult, but Mr Hoenig thinks it owes much to productivity improvements and a change in workers' attitudes towards pay increases.

"I talk to many organised labour leaders and I think we have a new, informed labour force these days. If workers are receiving pay increases based on productivity gains, they can see they are benefiting from improving their own productivity and they know that pressing for much bigger increases will not help them in the longer term."

Mr Hoenig does not share the view of some economists that the economy has become too dependent on the surging stock market. It has clearly "facilitated demand", he argues, but concern that the market has produced a bubble that is certain to burst is overdone, he thinks.

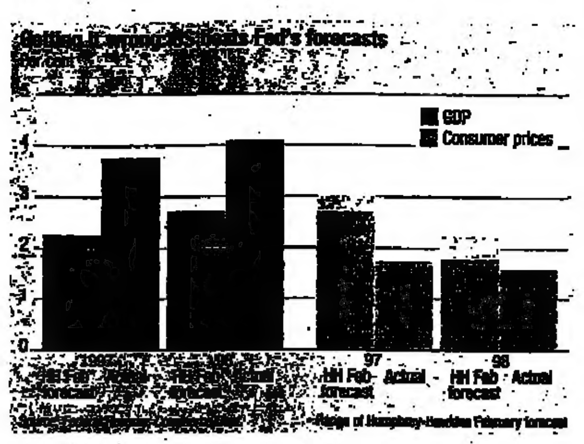
Though the personal savings rate has fallen into negative territory, partly because of the big increases in stock prices, consumers are not behaving irrationally, since their stock market gains look increasingly solid. "I'm more and more impressed with the argument that the wealth accumulation is real," he says.

In any case, there are few signs of the kind of excesses associated with previous periods of equity price surges. There is little evidence that the exuberance has spilled over into the rest of the financial sector, as it did in the late 1980s.

"I can well recall seeing loans that were being made to the energy sector on expectations that oil would reach $100 per barrel. I saw loans made to companies for 100 per cent of the cost of constructing a building, where the expected return was the appreciation of the value of the building during the construction process... there is none of the stupidity you had in the 1980s."

In the last three years, Mr Hoenig agrees that he and his colleagues have tolerated much stronger growth than they might have in the past.

"The fact that the economy did not show price inflation allowed us to be more patient than we would otherwise have been able to be," he says. "But we've had our eye on the right ball throughout – inflation."



Chile set to cut rates again as activity falls

By Mark Mulligan in Santiago

Chile's central bank is expected as early as this week to reduce its base interest rate for the sixth time since last September, amid evidence of a sharp slowdown in economic activity and a slide into recession.

Economists are expecting a cut to about 7 per cent in the overnight intervention rate from 7.25 per cent now and 14 per cent last September. Then, the bank was in the final stages of its so-called monetary "adjustment", designed to cool rampant consumption, rising inflation and a ballooning current account deficit.

Figures released last week showed that in December the Imacec index, a broad measure of GDP, was down 4.1 per cent on November, which itself was 1.2 per cent less than October's figure, leaving growth for the year at 3.3 per cent, about one point less than forecasts and compared with 7-8 per cent for most of this decade.

This rapid cooling of the economy, combined with cheaper Asian imports and intense competition in the domestic retail goods market, helped hold inflation for the year at 4.7 per cent, well below expectations and the lowest figure for 60 years.

"It is extremely likely that in the first quarter of this year we are going to see further falls in production," said Juan Andres Fontaine, economic consultant with Fontaine & Paul of Santiago.

The bank's determination to rekindle demand with monetary relaxation was complicated last week by a sudden attack on the peso, which has slipped about 5 per cent since the beginning of the year, mainly because of private sector debt obligations and regional unease in the wake of the Brazilian devaluation.

The currency is fluctuating in an ever-broadening band around a "crawling peg" to the US dollar, but the bank intervened twice last week, for the first time since September, to draw an estimated $100m from its reserves. The move drew criticism from industry leaders, who say the currency should be left to fall yet further to help exporters, who are already suffering from rock-bottom commodity prices, severe drought, and the double-edged sword of reduced demand and tougher export competition from Latin American neighbours.

However, according to Mr Fontaine, the bank has not abandoned its general policy of non-intervention. "Even since the Asian crisis, the Chilean financial markets have been of the opinion that the peso was overvalued, and there's been a tendency to let it depreciate," he said. "For most of last year, the central bank showed it did not want to impede this trend of a gradual depreciation. However, it did intervene frequently whenever there were sudden movements."

Last week's sharp falls have been attributed to Chilean companies and financial institutions buying hard currency to cover future dollar-denominated debt, as well as a surge in demand by the country's $31bn private pension scheme, which is now allowed to place 16 per cent of its portfolio abroad, against 6 per cent just two years ago.

The private sector accounts for nearly all of Chile's $30bn in external debt, although only 5 per cent of this is short-term, and the central bank holds about $15bn in reserves.

Governor Bush ponders life in the goldfish bowl

By Deborah McGregor in Washington

With camera lights blazing everywhere he goes, George W. Bush is getting a taste of what he might be in for if he decides to run for president.

As the nation's governors meet in Washington for their annual get-together, Mr Bush, the governor of Texas and undeclared frontrunner for the Republican presidential nomination, is encountering what every president on a trip to a foreign land well knows.

If the national media have a question they want answered, they bulldoze all else aside while a bemused head of state looks on, ignored, forgotten and quite possibly misidentified in the next day's newspapers.

So while the ostensible agenda during the four-day governors' meeting has included such issues as education, the states' slice of last year's tobacco settlement and the appropriate way for state and local governments to tax internet commerce, the only question anyone has for the son of the former president is: "Will you run?"

Mr Bush has swerved away from a direct answer, preferring to be politely, smilingly, maddeningly, noncommittal.

His favourite response has become a simple acknowledgment that he is "warming to the task".

But for the many Republicans to whom the younger Bush represents electoral salvation, it is enough. Staunch Bush loyalists, such as fellow-Governor John Engler of Michigan, are taking advantage of the governors' meeting to buttonhole as many potential supporters as possible.

More than two-thirds of the governors are expected to rally to Mr Bush should he decide to take the plunge. They seem not to mind that they have been shuffled to the media sidelines while he gets the Big Question. "I just know that in my heart... George is the best of the best," declared Frank Keating, Republican governor of Oklahoma.

Mr Bush has already tapped Lawrence Lindsay, a former Federal Reserve governor, to help put together a team of economic advisers that also includes Martin Feldstein, who served as chairman of Ronald Reagan's Council of Economic Advisers.

Other Reagan-era cabinet officers are advising on foreign policy.

Mr Bush himself says he will make his announcement next month. But in recent days, he has repeated his concerns about exposing his family to the searing scrutiny of the national spotlight.

"This decision is one of the heart and one of the head. In the heart, as I've made it clear, I'm reconciling what this decision means with my family," he said at the weekend. Mr Bush's twin 17-year-old daughters are said to be reluctant to enter Washington's fish-bowl existence.

Meanwhile, the surge of support for Mr Bush has helped chase off another potential rival. Pete Wilson, the former Republican governor of California, said yesterday he would not launch a presidential bid.

Democrats are keeping up a brave face, but they have long feared Mr Bush's potent brand of laid-back electoral appeal. As one Texas Democrat said in late 1997: "He's the big dog. And we've got to put him back in the kennel".

Daley heads for Chicago landslide

By Nikki Tait in Chicago

Chicago's mayor Richard M. Daley is heading for a landslide victory in today's municipal elections, so extending his 10-year reign in City Hall.

Although Bobby Rush, the former Black Panther activist-turned-US congressman who is challenging the incumbent mayor, says he still has a strong chance, opinion polls have consistently shown Mr Daley – son of Richard J. Daley, who held the same job from 1955 to 1976, and brother of William Daley, US commerce secretary – well ahead.

One recent poll put support for Mr Daley at 65 per cent, compared with only 13 per cent for Mr Rush. Anecdotally, too, many voters, who have benefited from surging property prices and low unemployment recently, seem content with the current administration.

However, the same poll, conducted for the Chicago Tribune newspaper, pointed out that many of the "undecided" voters were African-American, where Mr Rush draws his biggest constituency. Chicago is an overwhelming Democrat city, and there is no Republican challenger.

Much of the campaign has centred on how Chicago should handle its new-found prosperity. Mr Rush has focused on claims that the mayor has not fully distributed gains to many city neighbourhoods.

Mr Daley stoutly defends his record, saying he has focused on the "livability" of the city.

Canadian right plans to create united opposition

By Edward Alden in Toronto

Canada's governing Liberal party may face a new challenge in the next federal election, after delegates to a three-day convention in Ottawa over the weekend took steps to launch a new political party.

Canada's official opposition Reform party and a smattering of Progressive Conservatives, the country's fifth largest party, agreed to seek support for a new, united conservative party.

The initiative must still be approved by some 70,000 Reform party members in votes to be held later this year. The steering committee appointed to establish the new party was also given authority to explore a less formal arrangement in which Reform and the Conservatives would co-operate in the next election.

The initiative was begun by Preston Manning, Reform leader, who has said he is prepared to step aside as leader of a united party if it contributes to defeating the Liberals. The most popular alternative is Ralph Klein, the Tory premier of Alberta.

The Liberals under Jean Chrétien, prime minister, have easily won the last two elections despite receiving less than 40 per cent of the popular vote, and currently face no serious challenge. Mr Manning is hoping that by offering conservative voters a single alternative, the Liberals' stranglehold on power can be broken.

But the initiative has so far attracted little support from the Conservative party, which holds only 19 seats in the House of Commons.

In French-speaking Quebec, where the unilingual Mr Manning is seen as implacably hostile to the province's interests, Reform won a mere 0.3 per cent of the popular vote in the last election.

But in his speech to delegates at the weekend, Mr Manning sought to appeal to Quebeckers who favour a stronger provincial government at Ottawa's expense.

Mr Manning also made no mention of the party's controversial social platform, which includes opposition to abortion and to homosexual rights.

Polls show the party has little chance of winning power unless it moderates its stand on those issues.

On the web today

- PRI wins state election despite drugs claims
- Chávez finds work for Venezuelan troops
- Publish and be redeemed: Milken in the news

http://www.ft.com/americas

INTERNATIONAL ECONOMIC INDICATORS: PRICES AND COMPETITIVENESS

Yearly figures are shown in index form with the common base year of 1985. The real exchange rate is an index throughout; other quarterly and monthly figures show the percentage change over the corresponding period in the previous year and are positive unless otherwise stated.

	UNITED STATES					JAPAN					GERMANY				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	109.9	103.2	106.8	100.2	71.0	102.3	92.3	107.8	96.0	131.0	101.4	96.2	110.0	106.9	109.9
1989	115.2	108.5	109.9	101.9	74.9	105.1	94.2	114.0	96.3	123.5	104.2	99.3	112.9	108.0	107.5
1990	121.4	113.9	113.0	104.9	73.2	108.3	95.7	120.1	98.7	108.2	107.0	101.0	117.9	110.3	109.9
1991	126.5	116.3	117.3	108.4	74.1	111.9	95.8	124.2	103.9	113.2	110.9	103.4	125.3	109.8	107.5
1992	130.4	117.7	120.1	108.4	74.0	114.0	95.5	125.6	112.8	114.5	116.5	104.9	138.1	115.3	110.0
1993	134.3	119.2	122.1	107.7	78.4	115.4	94.3	125.6	118.5	137.9	121.7	105.1	148.2	119.4	111.3
1994	137.8	119.9	126.5	108.0	74.1	116.2	92.6	128.4	118.5	137.3	125.1	105.7	152.4	112.1	109.5
1995	141.7	122.2	129.7	105.4	68.7	115.9	92.0	132.5	115.8	138.3	127.4	107.5	159.0	110.8	114.7
1996	145.8	125.4	133.9	103.5	73.4	115.8	90.4	135.5	113.2	117.7	129.3	107.1	162.7	109.7	109.9
1997	149.2	125.9	138.0	101.5	79.1	117.4	91.0	139.7	110.0	111.5	131.5	108.2	164.5	103.1	104.8
1998	151.5	124.8	141.5	101.8	82.6	118.3	89.8	138.0		103.8	132.8	107.8			105.1
1st qtr.1998	1.5	-1.8	3.0	0.7	82.2	2.1	0.4	0.0	3.8	107.0	1.2	0.6	1.2	-5.9	104.1
2nd qtr.1998	1.6	-0.8	2.9	0.5	83.6	0.6	-1.9	-0.2	7.8	100.8	1.3	0.1	1.7		104.7
3rd qtr.1998	1.6	-0.8	2.4	0.9	84.9	-0.1	-1.9	-1.5	7.8	97.3	0.8	-0.7	1.6		105.7
4th qtr.1998	1.5	-0.5	1.8	-0.8	80.6	0.7	-2.0	-2.2		110.0	0.6	-1.5			105.5
February 1998	1.4	-1.5	3.1	1.1	81.6	2.0	0.4	0.3	3.3	108.7	1.1	0.7	1.3	-6.2	104.0
March	1.4	-1.5	3.1	0.6	82.4	2.2	0.1	0.2	4.7	108.1	1.1	0.6	1.2	-6.3	103.1
April	1.4	-0.9	2.9	0.2	82.7	0.7	-2.0	-0.2	8.1	103.7	1.4	0.3	1.6	-4.2	103.6
May	1.7	-0.8	3.0	0.2	83.2	0.6	-1.9	-0.1	11.0	101.0	1.2	-0.1	1.6		105.2
June	1.7	-0.7	2.7	1.2	84.5	0.4	-1.9	-0.2	5.9	97.9	1.2	-0.1	1.8		105.3
July	1.7	-0.2	2.1	1.2	85.1	-0.1	-1.9	-2.4	8.1	97.6	0.8	-0.4	1.6		105.6
August	1.6	-0.8	2.3	0.4	86.2	-0.3	-1.8	-2.8	8.3	95.3	0.8	-0.8	1.9		105.7
September	1.5	-0.9	2.3	1.2	83.4	-0.1	-1.8	-1.8	6.4	98.9	0.8	-1.0	1.9		106.0
October	1.5	-0.7	2.0	-0.3	80.1	0.4	-1.9	-0.5	5.7	108.3	0.7	-1.2	1.9		105.4
November	1.5	-0.7	1.8	-0.9	80.8	1.0	-2.1	-1.8	3.2	109.7	0.7	-1.8			105.1
December	1.6	-0.1	1.6	-1.8	81.0	0.6	-2.0	-4.8		111.6	0.5	-1.7			105.1
January 1999	1.5	0.9			80.2	0.1				115.0					104.2

	FRANCE					ITALY					UNITED KINGDOM				
	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate	Consumer prices	Producer prices	Earnings	Unit labour costs	Real exchange rate
1988	108.9	103.5	111.5	104.1	102.1	116.5	105.7	118.4	108.5	100.9	113.0	108.7	128.2	108.8	101.9
1989	112.6	108.7	115.6	105.2	99.7	124.2	112.0	128.9	113.8	105.1	121.8	113.9	137.2	114.0	100.5
1990	116.5	107.7	121.5	109.8	102.9	131.7	116.2	134.7	122.5	111.9	133.3	121.0	150.1	121.6	101.4
1991	120.2	106.4	127.1	113.4	100.7	140.3	120.0	147.6	134.2	113.1	141.2	127.5	162.4	127.9	104.4
1992	123.1	105.0	132.3	115.6	104.2	147.7	122.3	155.7	138.3	108.5	146.4	131.5	173.1	125.4	100.9
1993	125.6	103.0	135.6	118.1	108.6	153.9	126.9	161.4	145.6	95.2	148.7	136.7	180.9	127.9	93.1
1994	127.7	104.3	138.2		106.1	160.0	131.6	168.9	139.9	93.3	152.4	140.1	189.5	127.9	94.1
1995	130.0	106.7	141.5		106.1	168.6	141.2	172.4	139.6	86.3	157.6	146.0	196.0	132.6	90.7
1996	132.5	105.8	144.9		105.3	175.0	144.7	177.4	145.6	102.0	161.5	149.8	206.5	138.8	93.2
1997	134.2	105.2	149.0		102.7	178.2	145.6	183.8	148.7	102.7	168.5	151.0	215.8	144.4	108.5
1998	135.1		152.3		101.9	181.2	146.7			104.1	172.2	151.6			111.1
1st qtr.1998	0.7		2.6	n.a.	100.6	1.7	1.1	2.1	-5.7	102.3	3.4	0.8	5.1	6.2	113.2
2nd qtr.1998	1.0		2.4	n.a.	101.9	1.8	0.6	3.1	-1.8	103.4	4.0	1.0	5.2	4.5	112.6
3rd qtr.1998	0.7		2.1	n.a.	102.0	1.8	-0.2			105.1	3.3	0.5			111.7
4th qtr.1998	0.4		2.0	n.a.	102.9	1.5	-1.3			105.9	3.0	0.0			108.9
February 1998	0.7	n.a.	n.a.	n.a.	101.1	1.8	1.3	1.7		102.2	3.4	0.5	5.1	6.6	112.4
March	0.8	n.a.	n.a.	n.a.	101.1	1.7	0.9	2.8		102.2	3.5	0.9	5.5	5.3	114.2
April	1.0	n.a.	n.a.	n.a.	101.4	1.8	0.6	3.1		102.5	4.0	1.0	5.1	5.0	114.4
May	1.0	n.a.	n.a.	n.a.	102.2	1.7	0.8	3.1		103.7	4.2	1.0	5.1	4.7	110.4
June	1.0	n.a.	n.a.	n.a.	102.0	1.8	0.4	3.1		104.0	3.7	1.1	4.9	3.9	112.7
July	0.8	n.a.	n.a.	n.a.	100.8	1.8	0.3	2.4		104.6	3.5	0.8	5.4	4.8	112.9
August	0.7	n.a.	n.a.	n.a.	102.0	1.9	-0.3	3.0		105.0	3.3	0.5	4.6	4.0	111.9
September	0.5				103.1	1.8	-0.3			105.7	3.2	0.3			110.1
October	0.4				103.4	1.7	-0.9			106.2	3.1	0.1			107.2
November	0.3				102.7	1.5	-1.3			105.7	3.0	0.1			108.9
December	0.4				102.7	1.5	-1.3			105.8	2.8	-0.1			108.5
January 1999					102.3					105.6	2.4	0.0			105.4

Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA from national government and IMF sources, and by JP Morgan, New York. Consumer prices: not seasonally adjusted. Producer prices: not seasonally adjusted, US – finished goods, Japan – manufactured goods, Germany – industrial products, France – intermediate goods, Italy – total producer prices, UK – manufactured products. Earnings index: not seasonally adjusted, refers to earnings in manufacturing except France and Italy (wage rates in industry). Hourly except Japan (monthly) and UK (weekly). Unit labour costs: seasonally adjusted, measured in domestic currencies. Germany – mining and manufacturing, other countries – manufacturing industry. Real exchange rate: JP Morgan real effective exchange rate index versus 18 industrial country currencies, adjusted for change in relative wholesale prices of domestic manufactures. A fall in the index indicates improved international competitiveness.

erves target

Hong Kong unemployment creeps higher to 5.8%

EU to help fund elections

China clears minefields

Officials impose random fees

is projects on hold

NORTHERN IRELAND SIX MEN ARE DETAINED AFTER WEEKEND OPERATION BY POLICE INVESTIGATING OMAGH BOMB ATTACK

Leading republican dissident arrested

By Jimmy Burns in London

A leading dissident republican was among four people arrested yesterday by Northern Ireland police as part of the investigation into the Omagh bombing last year in which 29 people died and more than 350 were injured.

The man, who was being held in Londonderry, was named as Francis Mackey, the chairman of the 32 County Sovereignty Movement and a member of Omagh district council.

Those detained yesterday brought to six the number of men arrested in Northern Ireland since a joint police operation was initiated at the weekend.

Separately, police in the Republic of Ireland said that five men arrested there had been released.

Security sources were cautioning against raising expectations of a major breakthrough in the search to identify and bring to trial those responsible for the bombing in the market town of Omagh last August.

However, police on both sides of the border have been facing growing political pressure to show some results amid fears that dissident republican groups are preparing fresh attacks to disrupt the peace process.

Last month some opposition MPs from England and Northern Ireland threatened to use their statutory House of Commons privilege against libel suits to name individuals allegedly involved in the Omagh bombing. They agreed not to only after senior police officers and the UK and Irish governments argued that this would seriously prejudice any chance of a successful trial.

The latest arrests came as Irish officials conceded that there was still little prospect of any early advance on the "decommissioning" of arms issue.

Gerry Adams, the Sinn Féin president, said in Australia yesterday that there was nothing in the 1998 peace agreement agreement that required the Irish Republican Army to decommission before Sinn Féin can take up ministerial positions in a regional Northern Ireland government.

Mr Adams was commenting in the Sydney Morning Herald newspaper on the first day of an eight-day Australian tour.

However, both governments expect the decommissioning issue to remain a stumbling block to the setting up of the new government beyond that date.

● Almost 150 people were victims of paramilitary-style attacks in Norther Ireland in the last eight months of 1998, Adam Ingram, the UK government minister responsible for Northern Ireland security, said yesterday.

Loyalists were responsible for 90 attacks – comprising 25 shootings and 65 assaults, he said in a Commons written answer. Republicans were behind 59 – 19 shootings and 40 assaults.

The 149 offences, which took place between May 1 and December 31, included shootings, grievous bodily harm, actual bodily harm and common assault.

Underground rail delays threaten millennium party

A scheme to extend the capital's network to the heart of the celebrations is running dangerously close to deadline. **Charles Batchelor** reports

The £2.9bn ($4.8bn) Jubilee Line extension to the London Underground, which will be 19 months late if it opens in October, is the most contentious of three big upgrading projects to be running well behind schedule.

The delays are the result of many factors, some beyond management control. But engineering consultants and rail industry managers say a common thread is the state-owned London Transport's inability to manage big engineering projects to time and to budget.

The longest delay is on the Central Line, which passes through the the capital's fashionable West End to the City is more than five years behind schedule. The project involves new trains, control systems and public information systems and will not be completed before October 2000, more than five years late.

Modernisation the rolling stock on the Northern Line, known for many years as "the misery line", has also been delayed by more than a year because of design changes ordered by the Underground and problems with suppliers.

But the most pressing problem is with the Jubilee Line extension. It is expected to carry 60 per cent of the 12m visitors to the Millennium dome in 2000, the centrepiece of prime minister Tony Blair's plan to celebrate Britain's role in the 21st century. But the line is not expected to be completely open before October 31 and even then important stations such as Westminster – next to the Houses of Parliament – may not be open.

Even the October target may not be reached. The handover of the first section of the extension for train testing has already slipped from the end of January to next month.

The 15km extension to the line – linking the West End with the office metropolis at Canary Wharf – is supposed to represent the future of travel in the world's congested cities. It features the latest in metro design.

But engineering consultants with experience of Underground projects say the problems on the line – and on the other projects – resulted from the Underground's failure to create a strong central management team alongside the project manager to drive it forward.

The promoters of the Canary Wharf office complex, built on derelict dockyards to the east of central London, were desperate for an Underground line linking their office blocks to the West End.

After years of stopping and starting, the project was under way. But in 1992 – shortly after the passage of legislation authorising the extension project – Olympia & York, the Canadian developer of Canary Wharf, admitted it had over-stretched and applied for protection from creditors. The company had agreed to invest in a rail transport link to central London.

The project management team decided to push ahead anyway. Leading UK civil engineers, such as Balfour Beatty, Amec, John Laing and Tarmac signed up. So did groups from other countries including Aoki of Japan and Soletanche of France. GEC Alsthom contracted to deliver the trains while Westinghouse agreed to provide signalling.

The decision to keep responsibility for management of the project in-house was overturned by government pressure last September when Bechtel, a US project management group, was brought in. Underground management also failed to co-ordinate design and construction, or exercise tight control of the design when costs began to increase.

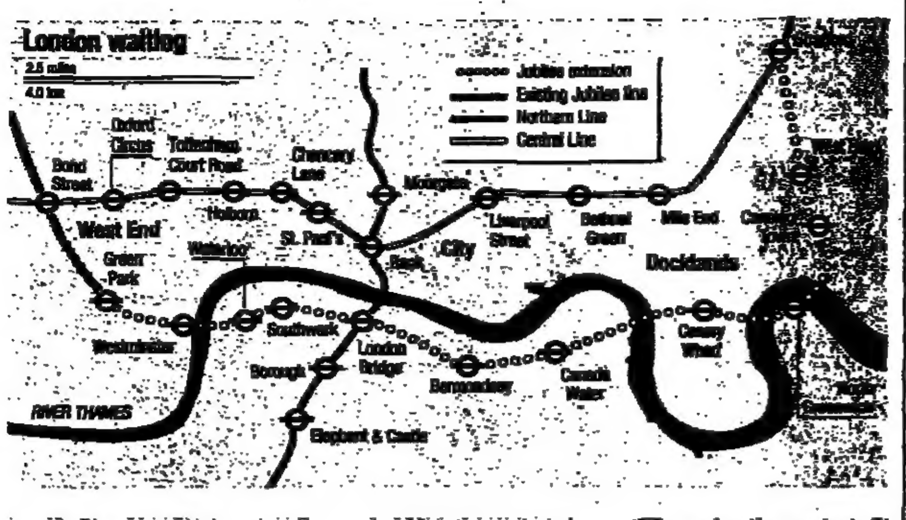
"We make the project fit the budget," said George Iacobescu, chief executive of Canary Wharf, owner of the Docklands office complex which is part-financing the link. "It is possible [London Transport] fell in love with the project. They have built lovely stations which will last 100 years but maybe they should have cut back."

One example highlighted by rail experts is the decision to site a cross-over, which allows trains to change tracks in an emergency, underground at Canary Wharf station.

This is two stations away from where the line comes up to the surface, where a cross-over would have been much cheaper to construct.

Breaking up the technologically complex parts of the Jubilee Line into too many pieces caused additional problems in getting them to work together.

Spreading responsibility for track, train control systems and signalling over three different companies caused unnecessary complexity in getting the different systems to work together, said Michael Schabas, a rail consultant and director of GB Railways, a train operating company.



The Jubilee Line extension

- 1989 Bill authorising construction laid before parliament
- 1992 Bill passed; Olympia & York, developer of Canary Wharf, goes into administration. Hopes it will contribute £400m to extension dashed
- 1993 Financial restructuring of Canary Wharf completed; private sector contribution to JLE of £400m confirmed
- 1994 Rail tunnel being built by New Austrian Method collapses at Heathrow airport. Work on two extension stations is halted
- 1996 Greenwich chosen as site for Millennium Dome
- 1997 London Transport says extension will be six months late with completion now due September 1998
- 1998 Feb Second delay announced – to spring 1999. High-tech signalling shelved until line is open.
- 1998 Sept Bechtel brought in to manage project. Hugh Doherty, London Transport's project leader, steps down. Completion delayed until Oct 1999
- 1998 Nov London Transport warns extension will not be ready on time unless electricians improve productivity
- 1999 Jan Electricians agree productivity deal

Ban on modified foods 'not against EU rules'

By Vanessa Houlder in London

The UK government is wrong to insist that a moratorium on the commercial growing of genetically-modified crops would break European Union law, two big environmental groups said yesterday.

The claim follows a legal opinion commissioned by the Royal Society for the Protection of Birds and Friends of the Earth.

"This is not an area in which certainties of any kind prevail," said the 20-page opinion drawn up by Philippe Sands, reader in international law at the University of London and global professor of law at New York University Law School. "However, good arguments can be made to support the view that a moratorium on the commercial growing of GM seeds would not be contrary to EU and WTO [World Trade Organisation] law."

The conclusion was welcomed by environmental groups, which renewed calls for a formal moratorium of at least three years on the commercial release of genetically-modified organisms. They say this is the minimum time needed to conduct farm-scale environmental trials of the crops.

Michael Meacher, environment minister, last week gave an assurance that the government would not allow the commercial release of GM crops unless it was satisfied about their impact on health and the environment. He added that – if necessary next year – he would urge industry to impose a voluntary delay on planting. If that failed ministers would "consider our powers".

The RSPB says the government's position is ambiguous and believes the government should end the confusion by "categorically and publicly" declaring a moratorium.

But Mr Sands yesterday partially defended ministers' reluctance to impose a formal moratorium. Despite criticisms of the government's legal arguments, he said it might be justified in taking a pragmatic stance.

Ministers might be reluctant to put the issue of a moratorium to a legal test because a decision could limit their room for manoeuvre on this and other issues. The legal position of EU states regarding GMOs is likely to become clearer over the year. He also emphasised the outcome of any legal battle would be uncertain.

Mr Sands used both the Treaty of Rome and the WTO Sanitary and Phytosanitary Agreement in his legal arguments supporting a moratorium. He also cited the absence of EU case law and the existence of relevant WTO case law.

Monsanto, Page 10

Trade data will reveal damage from high pound

By Richard Adams

The extent to which the strength of sterling has damaged UK exports will be revealed today when the total UK trade figures for December are published, giving a picture for 1998 as a whole.

The data will also give a strong hint of how much worse the situation is likely to become this year.

Even a moderately good performance will leave the country in its worst trade position since the boom presided over by Nigel Lawson, then chancellor of the exchequer, in the late 1980s.

Investment banks such as Salomon Smith Barney Citibank predict a deficit in trade in goods for December of £2bn ($3.2bn), on the heels of the previous month's steep £2.2bn deficit.

That would take the UK's trade gap in the fourth quarter of 1998 to about £6bn, the highest quarterly deficit since 1990 and £2bn more than the same period in 1997.

The main reason for the export gloom is simple: the long-term influence of the strength of sterling, which has been enjoying a powerful appreciation for the past two-and-a-half years.

"Export volumes are being hampered by the high pound and, to a slight extent, slowing world trade, while import penetration seems to be rising as the high pound allows importers to gain market share," notes Michael Saunders, UK economist at Salomons.

The pound's long ascent began in the summer of 1996 and reached a peak at the end of March 1998. Since then, analysts have declared that the pound was bound to fall. But the currency has retained a resilience, shrugging off warnings of recession and sharp cuts in interest rates.

Even the Bank of England, the UK central bank, has been surprised that its five consecutive rate cuts have done little to dent sterling. UK base rates, at 5.5 per cent, still offer a higher return than the euro-zone and the US.

The Bank's monetary policy committee, which sets rates, has also been forced to downgrade its outlook for UK exports based on its judgment of external demand and the lagging effects of sterling's appreciation.

The most recent data before today's figures showed a record £15.7bn deficit in traded goods between the UK and countries outside the European Union during 1998.

That was almost double the deficit in 1997.

North America has continued to run a traded goods surplus with the UK: the value of UK exports to the US and Canada fell in the last quarter of 1998, while North American imports to the UK rose by the fastest rate of any region.

Oil filter maker in India venture

By Peter Marsh in London

A venture to make equipment to bring western health and safety standards to Asian factories is being started in India by a leading UK maker of specialist machinery.

Filtermist – based in Bridgnorth in the English Midlands – is replicating in a plant in Poona, southern India, the technology it has pioneered over 30 years to make specialised fan-based filters that remove oil from the air around machine tools.

The oil, which gets into the atmosphere from the lubricating and cooling fluids used in metal cutting, can cause health hazards to plant operators. The Poona venture is in conjunction with Span, an Indian company that makes machine accessories and has a minority stake.

Filtermist is one of a handful of companies worldwide making the equipment, increasingly mandatory in western factories to meet tighter environmental standards. The world market for such systems is put at about $70m a year. Randall Taft, Filtermist's technical director, said there was a "huge" potential market in India, and opportunities to export to other parts of Asia. Privately-owned Filtermist has annual sales of about £6m ($9.7m), of which 80 per cent is exported.

Its UK factory makes about 8,000 filter units a year – selling for up to $3,000 each – and over the next few years the Poona plant is likely to build up annual production to about 1,000, according to Mr Taft.

Filtermist started in the late 1960s and has produced about 100,000 filters which have seen service in 40 countries. The equipment uses vanes that draw oil mist into the machine and draw away oil droplets to tanks from which the liquid can be recycled.

NEWS DIGEST

VISA APPLICATIONS

Lawyer claims immigration chaos traps executives in UK

Families and business executives are being trapped in the UK because of chaos at immigration headquarters, lawyers said yesterday. Delays transferring files to a new computer system have affected thousands of people of various nationalities who need documents to leave the country. The Home Office said some delays were expected during the modernisation of the system for handling cases. The process has included updating computer systems and relocating offices at the Immigration and Nationality Directorate in Croydon, south London. Julia Onslow-Cole, a lawyer with Cameron McKenna, the City of London law firm, said the problems affected thousands of non-UK citizens applying for permits or visa extensions. "A lot of businessmen simply can't travel. Some 250,000 files have been moved from one building to another without even being marked," she said.

The Home Office issued advice last year warning there would be "unavoidable disruption" during the changes. It asked applicants not to telephone or visit Croydon between December and February "unless it is absolutely necessary". The department said yesterday: "There is some disruption at the moment."

ELECTRICITY PRICE ALLEGATIONS

Texas offshoot may be named

Eastern Electricity, an offshoot of Texas Utilities, is expected this week to be named by Callum McCarthy, the UK energy industry regulator, as one of the generators alleged to have manipulated electricity prices in December. The regulator was still drafting recommendations yesterday on how to prevent further market "abuses" by generators. Mr McCarthy said last month he was considering altering the terms of generators' licences. He was also contemplating earlier than expected changes to trading arrangements in the national electricity pool, which sets wholesale prices. The regulator claimed prices would have been £90m ($146.7m) lower – about 10 per cent of total pool turnover of £889m during December – if there had been cost effective bidding by the generators.

Brigg, an independent power producer owned by Ivo, the Finnish electricity group, is understood to have set prices on more occasions during December than any other generator. Eastern has also been criticised for setting high prices.

The pool price mechanism, which customers claim has been abused by generators, was established to ensure electricity was supplied by the most cost-efficient plants following the break-up of the publicly owned Central Electricity Generating Board. Customers have repeatedly claimed that the three biggest fossil fuel generators – Eastern and the former state-owned National Power and PowerGen – have used their price-setting power to manipulate the system marginal price, one of the elements of the pool system. **Andrew Taylor, London**

LANDMINE CONVENTION

2m destroyed before deadline

The British army has destroyed 2m anti-personnel landmines before the Ottawa Convention comes into force on March 1, George Robertson, chief defence minister, said yesterday. More than 100 countries signed the convention banning the use, production and trade of landmines. They must report on stocks by June and destroy them within four years. The Royal Air Force's remaining stocks will be destroyed by the end of the year, leaving the UK with 4,000 to be kept to test detection and destruction techniques. Mr Robertson hoped the accelerated destruction of British mines would send a signal to countries that have not signed the convention.

"A serious, global effort is required before this ban will be truly effective," he said. **Alexander Nicoll, London**

MANUFACTURING

Warning to forgings industry

Inward investment in UK manufacturing, an important part of the economy over the past decade, could be hit if the forging industry does not build on previous productivity gains, according to a study. The sector is a vital supplier to much bigger industries, such as cars and aerospace, says the Centre for Economics and Business Research. The consultancy says the forgings sector increased productivity 57 per cent over the past decade, twice as much as UK manufacturing and four times the rate of the economy as a whole. It says failure to keep up this level of improvement could damage the country's ability to attract overseas investment in areas such as car manufacturing. UK forgings companies have annual sales of £780m ($1.2bn), mostly to other UK-based companies in fields such as cars, aerospace and general engineering with total output of £150bn. **Peter Marsh, London**

BBC APPOINTMENT

Chairman calls for courage

The main qualification for the new director-general of the BBC will be courage in taking tough and controversial decisions, Sir Christopher Bland, the corporation's chairman, is to say in a speech tonight. Sir Christopher, speaking to the Royal Television Society, will argue that the BBC will be "pilloried for the things it gets right" as well as its mistakes, so courage "is arguably the key qualification" for its leaders. Sir Christopher, who is leading the search for a director-general to succeed Sir John Birt next year, says the BBC will "continue to have to take tough decisions". He will argue that the higher the proportion of advertising revenue as a proportion of total revenue, the less distinctive a public service broadcaster is likely to be. The BBC is financed mainly by a state levy on UK users of television sets. **John Gapper, London**


Sir Paul arriving for work at New Scotland Yard yesterday Reuters

RACE RELATIONS CALLS FOR RESIGNATION AFTER LEAKS OF INDEPENDENT REPORT INTO MURDER OF BLACK TEENAGER

London police chief insists he will not quit

By Simon Buckby, Social Affairs Correspondent

Sir Paul Condon, the London police chief, insisted last night he would not resign despite growing calls for him to stand down.

The calls come before publication on Wednesday of an inquiry report into the killing in a suburban street five years ago of Stephen Lawrence, a black student.

The future of Sir Paul, police chief for all of London except the City financial district, may hinge on his willingness to accept there is "institutionalised racism" in his force, an allegation made in a leaked section of the report.

Sir Paul vigorously denied the charge when presenting evidence to Sir William MacPherson's inquiry hearings.

"I hope, pray, anticipate, that [the report] will say something very significant around institutional racism," he said yesterday. "I will embrace that with zeal."

According to leaks, the report accuses the Metropolitan police of "pernicious and institutionalised racism", adding that any senior officer unable to accept this will "find it extremely difficult to work with the community in the way that policing by consent demands".

Crucially, Sir Paul may be able to accept this as Sir William's new definition of institutionalised racism refers to "unwitting" prejudice.

Sir Paul became Scotland Yard's most senior officer just over two months before Stephen Lawrence was stabbed to death in 1993. The killing has become the most significant incident in British race relations in the 1990s. Five white men were acquitted of the killing in 1997 and subsequent attempts by Lawrence's parents to bring a civil action against them collapsed.

Sir Paul is due to retire when his contract expires next January. John Stalker, former deputy chief constable of the northern England city of Manchester, said he "must resign – his position is untenable".

Sir Herman Ouseley, chairman of the Commission for Racial Equality, said: "It is irrelevant who is running [the Metropolitan Police] – it is the framework that sets the standard."

The report will outline 70 recommendations to change that framework, "designed to usher in a fundamental transformation of Britain's race relations".

It is likely to call for a tougher race relations law, covering the police for the first time and possibly the armed forces and immigration service.

It may demand the criminalising of racist language, and the banning of offensive weapons in private. And it could lead to changes in the national curriculum for schools to emphasise cultural diversity and improve race awareness.

Since Sir Paul became commissioner in 1993 the number of officers from ethnic minorities has risen by 50 per cent. His new squad of "untouchables" is rooting out corruption within the force, and since April last year more than 50 officers have already been suspended.

He recently said up to 250 Met officers could be corrupt.

NEWS DIGEST

APPLICATIONS

wyer claims immigration aos traps executives in UK

ECTRICITY PRICE ALLEGATIONS

xas offshoot may be named

CONVENTION

m destroyed before deadline

MANUFACTURING

Warning to forgings industry

BC APPOINTMENT

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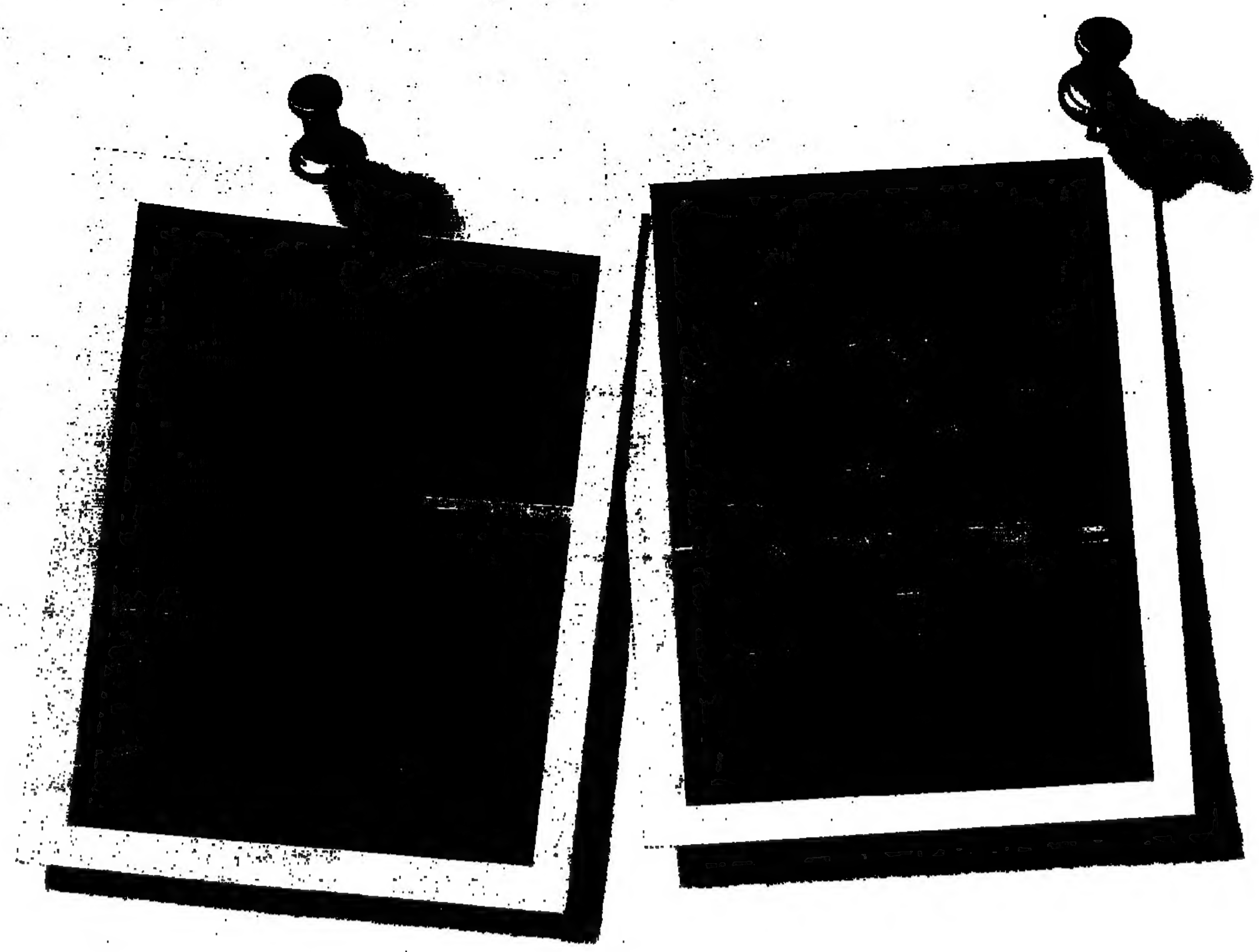
ill not quit



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MARKETING GENETICALLY MODIFIED FOODS

Monsanto scores an own goal

Richard Tomkins asks whether the public relations disaster over transgenic foods in Europe could have been avoided by putting in more careful groundwork

When the next book about great public relations disasters is written, it is a safe bet that it will be dominated by the story of Monsanto's woes over genetically modified foods in Europe.

It is the biggest business fiasco since Royal Dutch/Shell became the target of public outrage over its plans to sink the Brent Spar oil platform in the North Atlantic. And like that episode, it prompts the question: did it really have to be this way?

Business history is littered with stories of big companies rescuing their products and reputations from disasters.

Perrier fully recovered from the discovery of traces of benzene in its bottled water, and Johnson & Johnson similarly regained public trust after capsules of its Tylenol pain-killer were poisoned.

In the Perrier and Tylenol cases, the disasters could not have been foreseen: once they occurred, the companies involved took decisive action to restore public confidence by admitting what had gone wrong and engaging in massive product recalls.

It is not the same for Monsanto and the other biotechnology companies caught up in today's crisis.

Their products did not become genetically modified by accident: they designed them that way, and in their view, there is nothing wrong with them.

Nor does the Brent Spar analogy hold up. In that case, Shell ended the controversy by bowing to public pressure and changing its plans.

Monsanto cannot do this without giving up one of the world's biggest markets for one of its most important products.

Yet the Shell and Monsanto stories do share one common feature. Both companies thought they were "right", in a scientific sense.

Their mistake was in failing to foresee the public reaction to their plans, allowing themselves to be wrongfooted by the subsequent outcry.

Professor Ulrich Steger, a specialist in corporate clashes with society at Switzerland's International Institute for Management Development, says when companies are surprised by controversy, it is usually because their decision-making processes are based on rational, technical criteria. Too often, they pay little heed to dangers that lurk in the power of opinions and emotions.

"Managers do not think politically. They do not understand that politics are driven by other criteria than business," Prof Steger says.

"And in these days of shareholder value, managers are so overrun that they do not have the time to think things through and put themselves in the shoes of their adversary."

'In terms of goodwill, you have to build up a bank of trust on which you can draw in difficult times'

Lacking that perspective, Monsanto made three big mistakes, Prof Steger says.

First, as a US company, it badly underestimated the differences in attitudes towards nutrition in Europe and the US, where genetically modified products and hormone-treated beef are already widely accepted.

"One should realise that the tradition of processed and fast food is far shorter in Europe than in the US," Prof Steger says.

Second, it failed to recognise that consumers would resent being asked to shoulder the risks of a technology that brought them few obvious rewards.

"Experts told us for years that there was no risk of getting mad cow disease, then suddenly changed their minds. Who can guarantee they do not change their minds about genetically modified foods?" says Prof Steger. "So we carry the risks, but the benefits are higher profits for manufacturers and lower costs for farmers."

Third, it thought international trade agreements would force Europe to open its doors to genetically modified products whether it liked them or not. "Nobody likes being pushed around, and this gave them an initial image, rightly or wrongly, that they were pushing the reluctant Europeans into a situation they did not want," Prof Steger says.

Last summer, Monsanto sought to open the way for the introduction of genetically modified foods by running a £1m advertising campaign devised by the London-based Bartle Bogle Hegarty agency, explaining the case for its products.

The campaign appeared to have the right motives: it tried to create some understanding of a difficult issue and invited people to listen to opposing arguments, even giving the addresses and telephone numbers of organisations such as Greenpeace and Friends of the Earth.

But Mark Lund, chief executive of the London-based Delaney Fletcher Bozell agency, says advocacy advertising such as this is rarely enough to withstand a big controversy.

"Unless you are shining a very powerful light on some truth in your advertising that stands up against the tide of public opinion, then it's simply going to render your corporate advertising irrelevant," he says.

"It might be odd for an advertising person to say this, but the most effective way of creating an environment of acceptability for a controversial product is probably still very good public relations, because you have got to be sure that when the story takes off, you have got people who are on your side."

Not surprisingly, Ian Wright, vice-president of Britain's Institute of Public Relations, agrees. "Biotechnology companies are immensely secretive, and what you are seeing here is the result of their failure to put in the groundwork," he says.

"The truth is, in terms of public goodwill, you have to build up a bank of trust on which you can draw in difficult times. If you want to be in a position where you can deal with a crisis like this, you have to put in the spadework over a very long time before these things hit."

Monsanto says that it never really stood a chance of getting its case over in the UK, where it found itself introducing its products at about the time of the BSE scandal.

"We could provide one of our scientific experts with the most impressive academic background and a lifelong career in studying this area to explain how these products work and why we feel they are safe, but at the end of the day, anyone in the UK could say: 'Well, that's what they told us about BSE, and they were wrong.' It's clear that it's eroded confidence in science."

Is the situation retrievable? "Very much, yes," says David Hill, the former Labour party spokesman who is now a director of Bell Pottinger Good Relations, Monsanto's public relations adviser.

"What, I think, in the medium term can be a benefit of the frenzy of the last week is that, in a way it has been impossible to get anybody properly engaged up to now, we will begin a debate on the scientific basis of the research being done by the biotechnology companies into genetically modified food."

Prof Steger is less sure. At this late stage, he says, it is too late for Monsanto to open up a dialogue with its opponents.

"The only thing they can do is to stay the course and hope the resistance erodes over time. There are examples of corporations that have been portrayed as brutal and that are nevertheless successful."

On the other hand, there is also the example of nuclear power – another new technology that promised supposed benefits to society yet faced implacable opposition.

As Prof Steger notes: "Today, the only debate about nuclear power is how quickly to phase it out."

BUSINESSES FOR SALE

BUSINESS OPPORTUNITIES

READERS ARE RECOMMENDED TO SEEK APPROPRIATE PROFESSIONAL ADVICE BEFORE ENTERING INTO COMMITMENTS

BUSINESS SERVICES

BUSINESS WANTED

BUSINESS WANTED

FRANCHISING

CONTRACTS & TENDERS

CONTRACTS & TENDERS

TECHNOLOGY IMAGE COMPRESSION

Picture this, in sharper focus

A new software standard could change the use of digital images in the next century, writes **Edwin Colyer**

It is a common scene in detective films or TV series. A blurred picture is called up on a computer screen and several zooms later a small section is magnified, revealing the culprit's face in sharp detail.

In the real world, such incessant zooming leads only to an ever-increasing on-screen blur. "At the moment the resolution of an image is fixed – if you zoom in the picture gets fuzzier," says Richard Clark of Elysium, a small UK internet software house. But work is under way that could make images scaleable: "Soon you will be able to zoom in on a section of an image and maintain the quality."

The scaleability of images is just one way in which JPEG2000, a new standard in image compression, could remodel our use of digital images in the 21st century. People will be able to select regions of interest within an image, says Mr Clark. "You could compress an image so that the eyes, nose and mouth would be given more detail, or provide higher quality in parts of a medical image to help diagnosis.

"For web applications it will even be possible to attach information and properties to different levels of image compression or parts of the image. For example, you could have an image of an aircraft. By zooming in on the wheels you would bring up another picture, perhaps from a different angle."

Image compression does not just save space on hard drives and reduce transmission times across the internet. The JPEG standard is optimised for images of natural scenes and typically squashes files to a tenth of the size. But compression also affects the way images can later be handled and manipulated.

JPEG stands for Joint Photographic Experts Group, a committee of the International Standards Organisation, and comprises more than 200 experts who have produced a range of international image compression standards. The JPEG2000 initiative was started by JPEG's convener, Daniel Lee, a research and development manager at Hewlett-Packard, in 1997.

> 'Pictures are added to most web pages as an afterthought or for decoration'

"The currently used JPEG standards were developed about 10 years ago," he says. "They were based on technologies and methodologies from the 1970s. Although they meet most current needs, many of the new applications and technologies that have arisen from the internet provide much richer functions than are currently specified."

The enormous growth of the internet has been central in creating the need for a new standard, as it has changed the concept of data handling. "In the internet arena, it is uncertain where one application ends and another begins as machines communicate with each other," notes Mr Lee. "The new standard will be engineered to account for this interconnectivity."

The software and digital imaging communities recognise that with the internet a standardised approach to image handling is essential. Standards allow wider use – and better sales – of products.

Computer scientists have also argued for a new standard because of advances in compression power. Now bigger compressions are obtainable with an improved quality of image. Although the old technology is still effective for the highest quality images, the improvements mean pictures can be delivered more rapidly at generally acceptable quality levels.

Part of this improvement has been achieved by using a new approach, called wavelet compression, to sample the image and assess its data. JPEG2000 will be based on wavelets. The committee is assessing various models, carrying out thousands of tests before deciding which algorithms are finally written into the new standard. Wavelets allow pictures to be broken down and compressed in a more flexible manner. With JPEG2000 users will choose which parts of an image to download or decide to view small areas of images without losing resolution.

The new standard also addresses questions of image ownership and encryption. It will be possible to lock images so they are accessible to others at only poor quality, or with a watermark superimposed. In order to access the highest quality images, or use them in a publication, the user will have to obtain a "key" – presumably by paying.

Mr Clark, who heads the UK delegation on the JPEG2000 committee, admits some of these features are not new and are contained in the lesser known parts of the original standard. "JPEG2000 has more bells and whistles. But most of the work has gone into making the high compression performance and features as effective as possible. At the end of the day you want a decent image quickly."

For all its bells and whistles, whether JPEG2000 is quickly adopted cannot be predicted. Tom Lane, IJG's organiser, reserves judgment on the new standard. He hopes it will not only improve compression performance, but also address some of the problems associated with the current standard. "In the end, an ISO spec is only a piece of paper, and it may or may not ever achieve wide use," he says.

However, with the leading software and imaging industries involved in the new standard, Mr Lee predicts that JPEG2000 will change the way images are used on the web. "Currently, pictures serve an illustrative purpose only – they are added to most web pages as an afterthought or for decoration. But with JPEG2000, web-browsing could become image based. JPEG2000 will elevate the image to be a first-class citizen."

Good image: better compression will magnify with less loss of resolution — Ronald Grant Archive

INFORMATION TECHNOLOGY BRIEFS

Hewlett-Packard brings a touch of colour to the palm-top

Hewlett-Packard, the US computer group, is launching its first colour palm-top PC. Running on the Windows-CE operating system, the HP Jornada 420 weighs 250g and is a compact 13cm by 8.1cm by 2.2cm. The 256-colour, 240-by-320 pixel screen delivers high-magnitude graphics over normal monochrome models.

It connects easily to a desktop PC for instant synchronisation of personal information and electronic mail. The price is likely to be around $500.
www.hp.com/jornada

Motorola takes the net in hand

Motorola, the US electronics and telecommunications group, has introduced what it claims to be the first handset to support wireless access to the internet, corporate intranets and other networks. The i1000plus is an internet-ready device integrating the capabilities of a digital phone, two-way radio and alphanumeric pager with internet microbrowser, e-mail, fax and two-way messaging. It incorporates microbrowser technology developed by Unwired Planet, the US internet software group.
www.motorola.com

Mobile Chinese

Chinese speakers will be glad to hear that all new ranges of mobile phones from Ericsson will include versions that enable messages to be sent in the language.

The phones will be able to store Chinese names using the 10,000 Chinese characters available. The Danish company said the first Chinese language-enabled phones would be shipped in the second quarter of the year.
www.ericsson.com

CD notebook

Sony has announced the world's first slimline CD recorder for notebook PCs. Measuring just 12.7mm high, the CRX501E internal CDR drive has a capacity of 650MB. Such capacity means that even extensive multimedia presentations, picture files and video data can be recorded and relayed.

All the main CD recording methods are available, as well as standard CD reading and writing formats. Sony says "leading CD recording software suppliers will be supporting the drive".

The Japanese group has also extended its range of digital camcorders. The new Digital8 model offers digital video quality, but enables users to record on Hi8 tapes. Both Hi8 and standard 8mm recordings can be played back.
www.sony-cp.com

Marketing pack

Budding e-commerce entrepreneurs might like to peruse LiveCommerce 2.0, the latest version of the internet marketing solution suite from Open Market, the US software group. The new version offers an enterprise application package which enables companies to create intuitive, personalised online catalogues to serve their customers' individual requirements.

An important feature of the package is the real-time dynamic entry function. Users can jump from anywhere on the web to the appropriate item in a LiveCommerce catalogue.
www.openmarket.com

Christopher Price

TIM JACKSON
ON THE WEB

Value of the whole versus the parts

Do shareholders benefit when online businesses are split off from their traditional counterparts?

If you run a big public company, how should you use the internet to increase value to shareholders? This question is likely to be of growing importance around the world over the coming year or two. But it is made more piquant by the different answers companies are already offering.

In one corner stands Barry Diller of USA Networks, which owns Home Shopping Network offline and an online auction company called FirstAuction.com. Mr Diller announced a megamerger on February 9 in which his company will join with the Lycos search and portal business, and with the Ticketmaster and Citysearch combine that sells tickets and provides online local information.

Mr Diller believes that building a business both online and offline will reach 30m web users. He also believes that operations that take 1m phone calls a day and ship 200,000 boxes to customers is an ideal way to build an e-commerce giant.

In the other corner stand companies such as Barnes & Noble which hopes to spin off its online bookstore into a separate public company. Alongside is CMP Media, whose dollar share price rose from the high teens to the high twenties after an analysts' conference call a week ago, making a break-off of its web businesses seem more likely. Other examples of companies that believe shareholder value can be easily released by demerger include Dixons, the UK electronics retailer, which expects to sell off its FreeServe internet service provider.

Which company is right? Do shareholders benefit more by having online businesses split off from their traditional counterparts?

Mr Diller's arguments sound compelling. It is the ability to handle physical logistics that is often the Achilles' heel of businesses seeking to sell things on the web. The idea of combining a proven expertise in physical objects with internet entrepreneurship makes instinctive sense.

US shareholders appear to take the anti-conglomerate view. The immediate market reaction to the USA Networks/Lycos merger was to mark down Lycos's share price, signalling firmly that the whole will be less than the parts.

Yet signals from investors in Europe are less clear. The Lex column in the Financial Times pointed out recently that Dixons' share price had risen sharply since news of the runaway success of its free ISP became public. It also stated that the difference between the before and after valuations is greater than any independent value that could be put on the FreeServe business, even pricing its customers at £1,000 ($1,629) each.

Two things seem to be happening. First, the market is having difficulty working out what kind of synergies there should be between online businesses and their offline counterparts. Barnes & Noble, for instance, can do all kinds of cross-marketing between the two, from printing its web address on bags customers' books are wrapped in to using its web site to publicise events taking place at the user's nearest bookshop.

But there are also disadvantages. Standalone web businesses tend to grow quicker than subsidiaries of conglomerates, partly because they understand more clearly the disciplines of marketing online and partly because employees in web businesses often have stock options whose high potential value gives them an incentive to stay late in the office.

The risk is that traditional companies will move too quickly to spin off their internet businesses, without realising what they are giving up by way of links between the two.

But there is a compensation. Today's extraordinary high valuations of internet businesses have grabbed the attention of the head of practically every public company in the US. The message is clear: build an internet business quickly, and some of the star quality of the web could rub off on your share price. Facile as it may sound, this probably is the message markets should be sending to managers and owners of companies. The advantages of being first mover in online businesses are documented. By holding forth the carrot of high valuation, investors are telling companies clearly what to do.

How long this will take to reach Europe is unclear. Although valuations for online business in Germany's Neuer Markt are if anything even more frothy than those on the Nasdaq in the US, there seems to be more of a disconnection between the online upstarts and their traditional counterparts in the old world.

Paradoxically, the initial public offering of large local online companies on European exchanges could have a highly positive effect in stimulating thinking in European boardrooms. The message is clear: the internet is going to change your business and you need to move now to take advantage.

Tim.jackson@pobox.com

PEOPLE ON THE MOVE

Péladeau in the driving seat at Quebecor

Pierre Karl Péladeau, second son of the late Pierre Péladeau, has taken the helm at Quebecor, the Canadian printing, newspaper and forest products group founded by his father.

Péladeau, 37, becomes the youngest president and chief executive of any major Canadian corporation.

He has immediately ordered a review of all the company's operations with an eye towards cutting administrative expenses.

The Quebecor empire, started in 1950 when the senior Péladeau purchased a small community newspaper in Montreal, surpassed C$8bn ($5.30bn) revenues last year and boosted earnings by 21 per cent.

The company's largest holding is Quebecor Printing, North America's second largest commercial printer with revenues of C$5.6bn last year. The company became Europe's largest pure commercial printer last year after acquiring Tryckinvest i Norden, the Swedish printing company.

Quebecor also controls Donohue, Canada's largest integrated forest products company by market capitalisation and the second largest newsprint producer in North America.

But its most aggressive acquisition in recent years has been the dramatic C$1.2bn purchase last year of Sun Media, the Canadian newspaper chain best known for its racy tabloids.

The purchase overnight turned Quebecor into Canada's second largest newspaper chain, after Conrad Black's Hollinger/Southam group, and the only one with substantial properties in both French-speaking Quebec and English Canada.

Quebecor, which had failed in a bid to acquire Sun Media in 1996, was courted by the Sun chain as a white knight after Torstar, which publishes the Toronto Star, attempted to acquire Sun Media in a hostile takeover.

Pierre Karl Péladeau, at the time Quebecor vice-chairman and executive vice-president of Quebecor Printing, was the key negotiator on the deal with Sun Media.

The senior Péladeau courted controversy throughout his life, particularly with his outspoken sympathy for Quebec's separatist movement, a viewpoint reflected in his Quebec newspapers such as Le Journal de Montreal.

The younger Péladeau has been more circumspect about his politics, publicly embracing neither the federalist nor separatist camps in Quebec.

He and his older brother Erik, who takes over as vice-chairman of the company, control the majority of Quebecor shares.
Edward Alden, Toronto

Tarjanne to Project Oxygen

Project Oxygen, the US company planning to build a global fibre optic telecommunications network, has recruited **Pekka Tarjanne** to the newly created post of vice-chairman.

Tarjanne, 61, has spent the past decade as secretary-general of the International Telecommunication Union. Part of the United Nations and headquartered in Geneva, the ITU is an international organisation which helps governments and private sector operators to co-ordinate global telecoms networks and services.

As such, Tarjanne's international experience should prove invaluable to Project Oxygen, which intends to build an undersea cable network spanning 168,000km, with 99 landing points in 78 countries. The venture's total price tag of $14bn over 10 years, makes it by far the largest and most ambitious such project ever attempted.

Neil Tagare, chairman of the New Jersey-based start-up, said: "Dr Tarjanne will be an equal partner with me in the process of developing, promoting and running Project Oxygen." The company, which has around 50 employees at present, has hired Lehman Brothers as financial adviser to help it raise $3bn in funds to build the first phase of its network.

Before joining the ITU, Tarjanne was a government minister in his native Finland. While in charge of posts and telecommunications, he oversaw the restructuring of the telecoms sector and the conversion of the national carrier into a commercial company.
Daniel Bögler, New York

Top names to Blackstone

Blackstone Group, the US private merchant bank, has announced two new senior appointments.

Robert Friedman, one of Wall Street's most respected attorneys specialising in mergers and acquisitions, is joining Blackstone as a senior managing director.

Leaving Simpson Thacher & Bartlett, the US law firm, after 32 years, Friedman will work mostly in Blackstone's principal investing group.

Friedman has been advising Blackstone since the firm was founded in 1985 by Stephen Schwarzman and Peter Peterson.

"With his deal experience, perspective, superlative negotiating skills, and excellent judgment – plus his intimate knowledge of how our firm works and invests in principal situations – he is simply a great catch," said Schwarzman.

Friedman said: "I know that I am moving to an environment that has the same high ethical standards, the same passion for excellence, and the same kind of collegial culture that I have known at Simpson Thacher".

Blackstone has also announced the appointment of **Richard Lappin**, formerly president and chief operating officer of Fruit of the Loom, as a senior managing director.

Blackstone private equity funds own or have held major investments in 36 companies with more than $15bn in annual revenues.

Lappin will work with the firm's other senior managing directors to help monitor the operations of portfolio companies.

"Dick Lappin's years of senior management experience will be an enormous resource for us, especially given the emphasis in our portfolio on a diverse range of companies and the importance of operations to the success of our investments," Schwarzman said.

Blackstone is currently investing its $3.8bn Blackstone Capital Partners III private equity fund, which was raised in 1997.

Along with principal investing and mergers and acquisitions advisory, Blackstone's other business areas include real estate investing and restructuring and reorganisation advisory.
William Lewis, New York

Statoil shrinks business areas

Statoil, Norway's state-owned oil company, unveiled last week a new organisational structure. This is part of a multibillion krone cost-cutting and divestment programme which is aimed at restoring profitability in the country's largest enterprise after the company's worst results in a decade.

Statoil will combine 15 business areas into five for the groups operations, each headed by a senior vicepresident: **Henrik Carlsen**, 53, for exploration and production Norway; **Rolf Magne Larsen**, 46, international exploration and production; **Peter Mellbye**, 49, European gas; **Sten-Ake Forsberg** 52, Nordic energy and retail; and **Leidulf Ramstad**, 52, industry and trading.

Three senior vice-presidents, **Johan Nic Vold**, **Stig Bergseth**, and **Elisabeth Berge**, will fill new posts covering international relations and alliances, technology, and the Norwegian states direct financial interest in offshore operations respectively.

The new organisational model also includes a smaller corporate staff, with **Terje Vareberg**, 50, promoted to deputy chief executive under Harald Norvik, chairman and chief executive.
Valeria Sköld, Oslo

People on the move is edited by Lisa Wood. Phone 00 44 171 873 3605. Fax 00 44 873 3926.

Strange how the Berlin cookie crumbles

Nigel Andrews reports on a triumph of mindlessness over matter at the film festival

The 49th Berlin Film Festival ended in a triumph of mindlessness over matter. *The Thin Red Line* crossed the thin white finishing tape ahead of half-a-dozen smaller but more substantial competitors – not least the best US movie, Robert Altman's *Cookie's Fortune* – and 20th Century Fox can now laugh all the way to Oscar night.

Terrence Malick's war epic opens Britainwide later this week: more then. For me its pretensions were outshone by the filigree comic skills of Altman's movie, shown on the penultimate day to a jury so sandbagged by Malick, by Kurdish demos and by a three-films-a-day Golden Bear schedule that it could probably no longer tell quality from quantity.

How else explain why Stephen Frears won Best Director prize for *The Hi-Lo Country*, a Woody Harrelson-starring western so longwinded that it may have *seemed* like an epic? (To me it more resembled a bad dress rehearsal for *Duel In The Sun*.) At least the jury recognised quality in the European films. Denmark's *Mifune*, noted last week, won the runner-up Silver Bear and Michael Gwisdek became the first German ever to win Berlin's Best Actor prize for his bleakly funny turn as a benighted casualty of city life in the best Bundesrepublik movie *Night Shapes*.

Altman's *Cookie's Fortune* found nothing in the biscuit jar save the delight of film critics. For this comedy of small-town greed and grand-standing Hollywood's quirkiest veteran, late of *The Gingerbread Man*, stayed in the Deep South as if to make amends for Grisham nonsense. The cast is pure enchantment: Glenn Close, Julianne Moore, Liv Tyler, Chris O'Donnell and Patricia Neal enacting a ring-o'-roses comedy about an old girl's mysterious death, the scrabble for wills, and the fact that small towns are places where when any one person sneezes everyone falls down.

Altman and screenwriter Anne Rapp have a Fargo-worthy perspective on provincial law-enforcement. No one takes notice of cordoned-off crime scenes – yellow tape is there to be casually scissored by anyone it inconveniences – and in jail cells board-games and fishing debates take precedence over lawyers' visits. Best of all is the local production of Wilde's *Salome* (less tangential than it first seems), produced by a Glenn Close clearly convinced she is Eleanora Duse and starring a Julianne Moore whose dance of the seven veils resembles a bad day on *Opportunity Knocks*.

There were two other delights in the closing days, plus a near-miss. The last was Mike Figgis's *The Loss Of Sexual Innocence*, a reckless bid by the *Leaving Las Vegas* director to jump from the mainstream into a beckoning experimental backwater while Moviedom still lets him. This backwater, though, is very tangled: a jungle riot of *bricolage* and *bildungsroman*, of symbolism and disconnected scenes – including a naked black/white Adam and Eve in Africa – built around film-maker hero Julian Sands. It doesn't cohere, though the last episode of horror in the desert has a burst of narrative power suggesting a better film yet unmade.

Claude Chabrol's *Au Coeur Du Mensonge* is unalloyed pleasure: a dark thriller starring Sandrine Bonnaire as a painter's wife having a fling on the Brittany coast with media smoothie Antoine De Caunes. Miracle number one is that TV's *Eurotrash* compère can act, not just crack bad jokes in a cartoon French accent. Miracle two is that Chabrol's signature tropes – food scenes, mischievous colour symbolism, *trompe l'oeil* suspense moments that are part Hitchcock, part Pirandello – are as boldly inscribed here as in heyday work like *Le Boucher* and *Que La Bête Meure*.

The other treat was Robert Rodriguez's *The Faculty*. The *El Mariachi* pulp-master brings a new spin, not to say high gothic torque, to the teenagers-in-jeopardy horror film. Squishy aliens take over a high school's pupils and teachers. Early zombified schoolmistresses include Piper Laurie and Bebe Neuwirth, both in fine form, and the end is a rip-roaring retread of *Aliens*, with extra wit and intertextual savvy. Not great art, perhaps, but better than much that passed for great art at Berlin.

One the jury got right: Denmark's Silver Bear runner-up, 'Mifune'

Artist who failed the garret test

Millais' only crime was to be considered too well-to-do to be taken seriously, writes **William Packer**

It is time we treated Sir John Everett Millais properly. He was among the most conspicuously successful Victorian painters in an age that honoured its artists more than most, and remains one of the more intriguing in his life and distinctive in his work. Yet hardly before he was cold in his grave his reputation was under attack. In an insidiously damning article in The Savoy magazine a month or two after Millais' death in the summer of 1896, Arthur Symons, the symbolist poet and critic, remarked that "In the eulogies [he has] been justly given… I have looked in vain for this sentence, which should have its place in them all: he did not make the 'great refusal'."

We find Millais taking on the British portrait tradition at its best, and more than holding his own

The damage was done. Even now excuses and apologies still seem needed whenever Millais' work is shown in any strength and seriousness. "Had his reputation not declined to such a remarkable extent," says the National Portrait Gallery's director, Charles Saumarez Smith, in his catalogue preface to this latest show, 1996, the centenary of his death, "…ought to have been the year of a major retrospective exhibition." Indeed so, but the questions are begged: why was it not; and was the reputation in fact so low?

To received opinion, Millais stands convicted of the one unforgivable crime an artist can commit in modern eyes, that of selling out. He was, says Saumarez Smith, "despised by his more aesthetically minded contemporaries as being too prosperous and too socially conventional really to be taken seriously as an artist." To Symons he had betrayed "a finer promise than any artist of his time… [abandoning] a career which, with labour, might have made him the greatest painter of his age, in order to become, with ease, the richest and the most popular." His further charge that, whether it was Gladstone or Cinderella, "he painted them all with the same facility and the same lack of conviction" finds its echo even as late as 1984 in a remark of Alan Bowness, the then director of the Tate, on a "vacuity behind the conception" of the later work.

Is any of this fair, let alone true, is the question addressed by this rather small but nonetheless impressive look at his portrait work, from youth to old age. For what is at issue is the right of the individual artist to develop in his own way, to find his own path, and to be himself. For what the Symonses of this world would seem to say, which still strikes a sympathetic chord upon our post-romantic sensibility, is that you cannot be a true artist if you do not lead the artistic life. Symons gives himself away, however, by citing another painter as "a man of genius, whose virtues were all given up to his art, and who is now living in a destitute and unhonoured obscurity" – who turns out to have been Simeon Solomon, a minor late pre-Raphaelite and decadent Symbolist – very minor, pretty decadent. What makes it the worse for Millais is that he was, in his youth, so much the principled revolutionary, leader of the pre-Raphaelites against all that was corrupt, indulgent and self-serving in the late Renaissance inheritance.

The exhibition is set out in sections, demonstrating first the precocious talent which took him to the Royal Academy Schools in 1841 at the age of 11, following him through the 1840s in drawings and paintings of family and friends after the manner of the time. His first truly personal character as an artist then emerges with pre-Raphaelitism at the turn of the 1850s, which here is focused on the familiar Ruskin portrait (1854), which took him and the Ruskins off to the Highlands together, where he and Effie fell in love, a proceeding recorded in a sequence of charming anecdotal drawings.

A triumph, and proper vindication at last: Millais' portrait of the Hoare twins, dressed so smartly 'à l'amazone'

The three remaining parts are categorical rather than chronological, giving us in turn his work with children, great men and beautiful women, from the 1860s to the '90s, and here the show *is at its most interesting* and frustrating. For there is simply not enough to do the job properly. Was there a failure of nerve, again? Was it really necessary to give so much space to the early work, which has always been acknowledged, as insurance? The child-portrait section is particularly thin, when there are so many, of the half-lengths especially, to tie him in intriguingly to the aestheticism of such as Whistler and Albert Moore.

But the men and women, too few again alas, are in their different ways a triumph, and proper vindication at last. Post-pre-Raphaelite, his work opened out to admit a painterliness in the handling of paint and surface of astonishing assurance. And we find Millais taking on the ambition and scale of the British portrait tradition at its best, and more than holding his own. He *may no longer be the revolutionary* as such, but there is nothing unserious, unworthy or untesting in the underlying ambition. We may baulk still at certain sentimentalities, but those were the conventions of the age, and no more irksome, indeed no more sentimental, than the grandiosities and artificialities of the great Georgians.

The Tate's three Armstrong sisters, *"Hearts are Trumps"* (1872) is a *tour de force*, setting out quite openly his claim to a place alongside Reynolds; and so too the far less familiar double portrait of the Hoare twins (1876), dressed so smartly "à l'amazone". But the single figures, male or female, are perhaps even more impressive, for their unaffected simplicity of presentation, and the directness of their address. Millais, for all his tricks, his lightness of touch, his ease of drawing, shows us his sitters as they are, to the life, whether it is Gladstone with his fierce eagle eye, or his beloved, ever-pensive sister-in-law, Sophie Caird.

This may not be the thorough retrospective that is now necessary, but at least we can see Millais at last as the true painter he always was.

Millais – Portraits: The National Portrait Gallery, *St Martin's Place*, London WC2, until June 6; supported by The American Friends of The National Portrait Gallery.

OPERA IN ZURICH DON GIOVANNI/BORIS GODUNOV

Fate fails to trip up Bartoli's Elvira

The Fates conspired to sling their worst at Jürgen Flimm's new production of *Don Giovanni*, but for once they failed to spoil an exceptional occasion. Their first trick was to cause Cecilia Bartoli, due to sing the mezzo-ish part of Donna Elvira for the first time, to slip on the ice during the late stages of rehearsals. The result put her on crutches, but she is one determined lady, and with the help of a little judicious re-arrangement of movement and the deployment of a few bag- and chair-carriers, for her the show went on.

In the event she was tremendous. The voice is in great shape, much larger than I remember it and even fuller of colour, with a useful husky quality lower in the register which she utilised to great effect as a counter to her brilliant, hardish sound which she used to express blistering rage. The way she commanded the stage was a wonder to behold. Less predictable was that the range and stance of the role seemed ideally suited to her.

The second trick of the Fates was to cause the company to lose its original Leporello, László Polgár, at the last minute. Luckily a replacement was found – the excellent Manfred Hemm, who fortuitously had the role still fresh after recent performances elsewhere. His only serious *faux pas* was a rather surprising appearance one scene too early in Act One, which resulted for a heart-stopping few seconds in a curious duet with Don Ottavio. A swiftly improvised excuse, executed in perfect Mozartean recitative, rightly let him off the hook immediately, and as the evening wore on his singing and acting became better and better.

But Bartoli and Hemm were not the only heroes in this singularly well balanced cast. Elizabeth Magnuson's Donna Anna *had its weaker moments* – her difficult Act II aria, "Non mi dir", among them – but was largely good. Roberto Sacca's bespectacled Don Ottavio conveyed a character with more common sense than is often the case. Isabel Rey and Oliver Widmer were hugely attractive as Zerlina and Masetto. And the giant voice of Matti Salminen as the Commendatore imposed itself on the whole evening.

In the title role Rodney Gilfry was in magnificent voice, and every movement, every facial expression, was telling. From the outset he was, quite rightly, always a degree more sinister than roguish. In the pit Nikolaus Harnoncourt elicited sharp-edged, vividly coloured and astutely phrased playing from the excellent band.

This Giovanni is reincarnated, or so Flimm's predominantly grey-coloured production would have us believe. With its sequence of vague backdrops, its clever use of the revolving stage, and in Act Two a progressively revealed system of scaffolding that ultimately circles the Commendatore's statue, his staging hints at abstraction without quite getting there: and Florence von Gerkan's costumes could be 18th, 19th, or early 20th century, European or American. But all is made clear in the last moralising chorus, when a definitively classical arcade makes way for a view of a 1950s American motel, and Giovanni, who shortly before has been consumed by a spectacularly explosive stage fire, is seen smooching a young girl. To be sure, he is still intent on getting his oats, and he is still very much the smooth operator; but in the context of a later age he seems entirely unremarkable.

Slipping on ice put her on crutches . . . but the voice is in great shape

★

A brief word on David Pountney's production of Mussorgsky's Boris Godunov (mostly the 1869 version), whose last night I caught on Saturday. This is a powerful, original and deeply affecting staging, evoking thoughts of Chechnya or Sarajevo, Yeltsin or Stalin, as much as it calls to mind more ancient Russian tyrannies and madnesses. One pities Godunov's self-destructiveness – particularly given Matti Salminen's overwhelmingly powerful singing of Godunov – but the conducting of Nikša Bareza, who replaced a sick Frans Welser-Möst, failed to make the work flow as such an episodic and naked piece as this needs to.

Stephen Pettitt

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Carmen: by Bizet. New staging by Andreas Homoki, conducted by Edo de Waart. The designs are by Wolfgang Gussmann and Gabriele Jaenecke, and the cast includes Carmen Oprisanu and Martin Thompson; Feb 24

BERLIN

OPERA
Deutsche Oper
Tel: 49-30-34384-01
Rise and Fall of the City of Mahagonny: by Kurt Weill, libretto by Brecht. New staging by Günter Krämer, conducted by Lawrence Foster, with designs by Gottfried Pilz and Isabel Ines Glathar; Feb 24, 28

BOLOGNA

OPERA
Teatro Comunale
Tel: 39-051-529 999
www.nettuno.it/bo/teatrocomunale
La Bohème: by Puccini. Conducted by Daniele Gatti/ Paolo Arrivabeni in a staging by Lorenzo Mariani, with designs by Willy Orlandi; Feb 23, 24, 25

CARDIFF

OPERA
Welsh National Opera
Tel: 44-1222-464 666
● Hansel and Gretel: by Humperdinck. Conducted by Wladimir Jurowski in a staging by Richard Jones, premiered in December. Cast includes Imelda Drumm, Linda Kitchen and Nigel Robson; *Feb 26*
● Peter Grimes: by Benjamin Britten. Carlo Rizzi conducts a new staging by Peter Stein. With sets by Stefan Mayer and costumes by Moidele Bickel. Cast includes John Daszak and Janice Watson; Feb 24

COLOGNE

EXHIBITION
Wallraf-Richartz Museum
Tel: 49-221-223 82
www.museenkoeln.de
Arendt de Gelder (1645-1727): first monographic exhibition devoted to Arendt de Gelder, one of Rembrandt's most prominent pupils. The show includes 58 paintings and 13 drawings as well as 25 graphic works by Rembrandt; to May 9

OPERA
Oper der Stadt
Tel: 49-221-221 8240
Die Vögel: first modern staging for Walter Braunfels's opera. Premiered in 1920, it was banned by the Nazis and largely forgotten until a recent recording. This production is conducted by Bruno Weill and staged by David Mouchtar-Samorai; Feb 23

COPENHAGEN

EXHIBITION
Louisiana Museum of Modern Art, Humlebaek
Tel: 45-4919 0719
www.louisiana.dk
Henri Cartier-Bresson: Europeans. Previously seen in Paris and London, this show brings together 185 works *ranging* across the photographer's career from the 1930s to the present; to Jun 6

EDINBURGH

OPERA
Edinburgh Festival Theatre
Tel: 44-131-529 6000
● Scottish Opera: Der Rosenkavalier, by R. Strauss. New staging by David McVicar, conducted by Richard Armstrong. The cast includes Joan Rodgers; Feb 24, 27
● The Magic Fountain: by Delius. Conducted by Richard Armstrong in a new staging by Aidan Lang, with designs by Ashley Martin-Davis; Feb 26

HARTFORD

EXHIBITION
Wadsworth Atheneum
Pieter de Hooch (1629-1681): previously seen at Dulwich Picture Gallery, this first-ever one-man show of the Dutch painter offers a reassessment of his work. Less celebrated than *his contemporary*, Vermeer, de Hooch was a pioneer in his own right, and a specialist in maternal and domestic subjects; to Feb 27

HOUSTON

EXHIBITION
Museum of Fine Arts, Houston
Tel: 1-713-639 7750
www.mfah.org
Brassaï: The Eye of Paris. Retrospective of the photographer's work that coincides with the 100th anniversary of his birth. Dubbed *'the eye of Paris' by Henry Miller*, Brassaï celebrated the city in photographic series including 'Paris at Night', a series of photographs taken during nocturnal wanderings with the flâneur and poet Léon Paul Fargue; to Feb 28

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: conducted by Lorin Maazel in the UK premiere of his Music for Violin and Orchestra, and in Bartók's First Portrait; and by Wolfgang Gieron in Tchaikovsky's Symphony No. 6; Feb 24, 25,

Royal Festival Hall
Tel: 44-171-960 4242
London Philharmonic Orchestra: conducted by Jukka-Pekka Saraste in works by Strauss and Beethoven, with soprano Cheryl Studer; Feb 24

OPERA
English National Opera, London Coliseum
Tel: 44-171-632 8300
● *La Traviata: by Verdi. Revival* of Jonathan Miller's production conducted by Michael Lloyd; Feb 25
● Parsifal: by Wagner. Conducted by Mark Elder in a new staging by Nikolaus Lehnhoff, with sets by Raimund Bauer and costumes by Andrea Schmidt-Futterer. Cast includes Kim Begley and Jonathan Summers; Feb 23, 26

MUNICH

CONCERT
Philharmonie Gasteig
Tel: 49-89-5481 8181
Munich Philharmonic Orchestra: conducted by Ingo Metzmacher in works by Schubert and Henze; Feb 23

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-875 5030
www.lincolncenter.org
New York Philharmonic: conducted by Kurt Masur in works by Menotti and Mahler, with mezzo-soprano Jennifer Larmore, tenor Richard Leech and violin soloist Glenn Dicterow; Feb 23

OPERA
Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org
Moses and Aron: by Schoenberg. Conducted by James Levine in a staging by Graham Vick, with sets and costumes by Paul Brown. *Cast includes Philip* Langridge and John Tomlinson; Feb 23, 26

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Christoph Eschenbach in works by Brahms, with piano soloist *Tzimon* Barto; Feb 24, 25

PRAGUE

DANCE
National Theatre of Prague
Tel: 420-2-2108 0131
www.anet.cz/nd
The Nutcracker: by Tchaikovsky, in a staging by Russian choreographer Jurij Grigorovic; Feb 24

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Jeffrey Tate in works by R. Strauss, Humperdinck and Honegger; Feb 25, 26, 27

SEATTLE

OPERA
Seattle Opera
Tel: 1-206-389 7676
www.seattleopera.org
Vanessa: by Samuel Barber. Conducted by Yves Abel in a staging by Sharon Ott; Feb 27, 28

TOKYO

CONCERT
Suntory Hall
Tel: 81-3-3584 9999
Orchestre National du Capitole de Toulouse: conducted by Michel Plasson in works by Gounod and Saint-Saëns, with soprano Leontina Vaduva; Feb 23

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:

06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

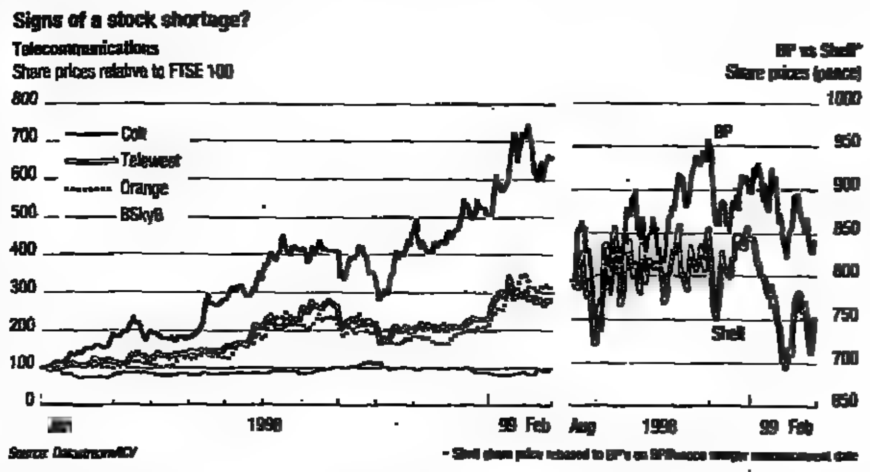
● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

On the wrong track

The popularity of 'index tracking' threatens to distort stock markets because it has artificially raised the value of companies with illiquid shares, argues **Hugo Dixon**



Could the index tail be wagging the investment dog? Share indices, like the UK's FTSE 100 or the Standard & Poor's 500 index in the US, were originally designed to provide an objective benchmark for measuring how a particular portfolio was performing. But increasingly, there are signs that investors are reacting to the indices in such a way as to distort the valuation of particular stocks and, by extension, the behaviour of companies as well.

The problem arises as a result of index tracking – an investment strategy that seeks to mimic the returns of a particular index. In the UK, around 20 per cent of the market is held by "trackers". And this proportion is on the increase in both the US and the UK, in part because such a non-thinking strategy has tended to produce better returns than active management.

Index tracking raises the danger of an "indexation bubble" in stocks that are part of an index but that, for various reasons, are hard to get hold of. Several FTSE 100 companies – notably BSkyB, Colt Telecom, Orange and TeleWest – have less than half their stock freely floating. The rest is locked up by strategic shareholders, such as Rupert Murdoch's News Corporation and France's Pathé in the case of BSkyB.

Because the indices seek to capture the whole value of all companies traded on a particular market, companies with big strategic stakes are weighted in the index according to their full market capitalisation, not merely the proportion floating freely. Under the rules of the FTSE 100, which is run by FTSE International, the indices company half-owned by the Financial Times, only a 25 per cent free-float is needed for a group to be included in the FTSE 100. A similar approach is taken by other indices companies such as MSCI.

What this means is that once the trackers have had their fill, there is not much left for everybody else. Given, moreover, that many other investors are "closet trackers" – who do not like to be too far out of line with the index – the share price can be squeezed up.

A similar phenomenon occurs when foreign companies relocate to the UK. At present, a wave of South African stocks, such as Anglo American and South African Breweries, is arriving in London. Under FTSE International's rules, a company can be included in the FTSE 100 index if it is domiciled in the UK. But this does not stop the stocks being included in the Johannesburg Stock Exchange All Share Index.

Again, problems arise when trackers in the UK need to acquire their full weighting but much of the stock is still held overseas. Add to this the fact that many of these companies have limited free-floats – Anglo American is nearly 40 per cent owned by De Beers, SAB is 28.5 per cent held by Bevcon – and a stock shortage could result.

Cross-border mergers can create a further distortion. Take BP Amoco, the newly created oil giant. Before the merger, BP accounted for 4.9 per cent of the FTSE 100; afterwards, the weighting increased to 8.1 per cent. That meant trackers had to increase their purchases of the stock.

If Amoco's US shareholders had simultaneously sold their stakes, there would have been no shortage. But BP Amoco is such an important company that US investors have, for the most part, hung on to their stakes. This again seems to have squeezed up BP Amoco's share price, which has outperformed Shell's since the merger was announced.

With Astra Zeneca, the drugs company formed from merging Sweden's Astra with Britain's Zeneca, there will be a further twist. Not only will Zeneca's weighting virtually double to 4 per cent; Astra may stay in Sweden's main index.

Hence the threat of an indexation bubble. It is not just that some stocks are squeezed up once and for all. There is a second-round effect: with trackers outperforming active investors, more funds are invested with trackers. As active investors underperform, they may become more reluctant to forage far from the herd. But, as more funds are devoted to matching an index, the squeeze continues – further enhancing the trackers' performance.

The indexation bubble may, in turn, be affecting corporate behaviour. Companies have often wanted to be included in a blue-chip index for reasons of prestige. Now there seems to be a cost of capital advantage too. This is probably one factor fuelling the merger boom: bigger companies stand a better chance of attracting investors' attention. In this context, mega cross-border mergers are doubly good because then the stock can be on two sets of investors' radar screens.

What is to be done? One fairly obvious, partial, solution would be for indices to stop weighting companies with small free-floats according to their full market capitalisation. This would not be a trivial exercise. After all, there is no sharp dividing line between stakes which are held for the long term and those which are freely traded. Sometimes blocs of shares which previously seemed locked up would come up for sale. Still, one would have thought that it was precisely by cracking such issues that indices could add value.

Another solution would be to create a special index for multinationals. The notion was recently suggested by actuaries Bacon & Woodrow. Technically, it would be difficult (how do you define a multinational?) But if these problems could be overcome, it would be possible to construct national indices, say a FTSE 100 ex-multinationals, that would reflect more closely the performance of local economies – an idea FTSE International is considering.

There is, of course, a third solution. Investors could be less slavish in tracking indices. The only snag is that, so long as the indexation bubble continues, standing against the herd seems like a recipe for getting crushed in a stampede.

LETTERS TO THE EDITOR

Asset allocation approach must combine inputs

From Mr Richard Urwin.

Sir, Peter Martin ("Invest in new habits", February 16) makes a number of good points about the inadequacies of conventional investment benchmarks. However, his claims concerning the demise of geographically based asset allocation is less convincing. If regionally based allocation processes are dead, how can he attack European fund managers' underweight position in the US?

More important, even "global" companies' profits tend to be over-exposed to the business cycle of their country of origin. Competitive advantage depends not only on the intrinsic qualities of a company, but also on the environment in which it operates. As a result, a "good" US company will have outperformed an equally "good" Japanese company in recent years, given the stronger performance of the US economy.

Finally, competitive advantage is a highly subjective and dynamic concept – it can be here today and gone tomorrow. A strategic benchmark allocation from a decade or so ago based on an assessment of competitive advantage would doubtless have included a high weight in Japanese and other Asian companies, some now-excluded members of the FTSE-100 Index, and a swathe of small companies – all of which would have systematically underperformed. US companies would almost certainly have been under-represented. Re-doing the exercise today would probably enshrine in strategic benchmarks the outperformers of the past few years. These in turn could become tomorrow's dogs.

Any sensible asset allocation approach will combine local, global, economic and company-specific inputs. Mr Martin's approach risks throwing the baby out with the bath water.

Richard Urwin,
head of economic research,
Gartmore Investment Management,
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Africa's debt is the evidence of a failed policy on aid

From Mr Andrew Buckoke.

Sir, The basic flaw of your leader about the Jubilee 2000 campaign (February 17) is the idea that debt relief should be simply another sort of aid, subject to another sort of conditionality. Most of our aid has been conditional for years, and the evidence for its failure is the debt. It would be disastrous if debt relief became a continuation of a failed aid policy.

It is true that much of the aid has been stolen or wasted, but most of what was stolen was taken by regimes that we knew would steal it, and most of what was wasted was spent on projects designed and executed by our own consultants and contractors. Those who now talk about moral hazard should remember that at the time we were trying to buy influence and trying to give business to our own nationals, irrespective of the effects on the people on the ground, whom we barely understood anyway. This remains the case.

The civil wars and economic decline in post-colonial Africa are to a large extent the result of those efforts. To make the Africans pay for them is genuinely perverse. The only moral and practical course is complete and immediate debt relief, but logic and experience dictate a corollary that many of the Jubilee 2000 supporters will find harder to accept: the complete cessation of new aid.

The sad truth is that if conditions were right no aid would be needed, and therefore that aid is only given when it cannot work. It merely distorts and disrupts, as anybody who has spent much time in Africa has seen. The donors need to learn that they do not know better than the Africans how to run Africa; the Africans to learn that the donors will not pull them out of holes they dig for themselves. The same could be said of Russia, Brazil, Malaysia, Korea . . .

Andrew Buckoke,
Raised Ground,
101 King Henry's Road,
London NW3 3QX, UK

Performance gets small companies noticed

From Mr Fred Ridsdale.

Sir, With regard to your article on the lack of interest in small companies ("Survival of the biggest", February 17), many really have no grounds for complaint since they simply do not perform well enough to attract the attention of investors, institutional or otherwise. I am a non-executive director of a small private company, soon perhaps to go public, whose founder, at the age of 18, had two or three jobs simultaneously; by the age of 20 he was an entrepreneur in the best sense of the word, and has since built his company into the largest distributor of its type by the sheer love of hard work and involvement in business.

Many of today's small companies make "me-too" products, lack creativity and are just not equipped to operate in today's global economy. Their earnings and dividends are erratic, their borrowings (and thus their dependency on the banks) too high, and their growth rarely organic, fuelled predominantly by small acquisitions. A close examination of their performance ratios quickly reveals that to put money into them would be more of a gamble than an investment.

If you are a small company with a new product that the market needs or wants, consumers will beat a path to your door. You will rapidly cease to be a small company – and you probably won't remain medium-sized for long either.

Fred Ridsdale,
10 Grange Avenue,
Peppard Common,
Henley-on-Thames,
Oxon RG9 5JP, UK

Bank reforms – or bail-out?

From Prof Leon Hollerman.

Sir, Your article "Japan bond issue will fund banking reform" (February 16) does not describe any contemplated reforms. Are you sure the $61bn raised will not be used merely for a bail-out of the status quo rather than for reform?

Leon Hollerman,
professor of economics,
Peter F. Drucker Graduate
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PERSONAL VIEW STEPHEN ROACH

Don't write off China

The western notion that China is to be the next, and biggest victim of Asian contagion is wrong, and takes no account of the country's more pragmatic approach

In the eyes of the western press, China can do nothing right. Whether it is economic growth, financial system perils, currency risks or social tension, the view is widespread that China is about to join the dominoes that have already fallen in the Asian crisis. My advice is very simple – do not believe what you read.

A year ago, like most, I felt it would only be a matter of time before China succumbed to the Asian crisis by devaluing and lapsing into recession. However, it quickly became apparent that China is very different from the rest of Asia. And subsequent events have borne that view out.

For starters, its economy is re-accelerating, after a disappointing performance in the first half of 1998. While exports continue to sag in the face of the Asian crisis, domestic demand is on the mend. Retail sales and foreign direct investment are both picking up again, while housing reform is continuing apace. Of course, the sceptics always insist that China's data are rigged. But if they were, the presumed growth deficiencies would long ago have triggered an outbreak of rising unemployment and social tension, neither of which has happened.

I have, however, detected an important shift in the internal debate over China's growth. For most of 1998, the official 8 per cent gross domestic product growth target was something of an icon. It was viewed as a symbol of China's capacity to stay the course. But a new realism has crept into China's own assessment of its growth target. In the midst of a grave financial crisis in Asia and the global economy, China has come to recognise that it, too, is no longer an oasis of prosperity.

In framing their growth objectives for 1999, the Chinese are now speaking openly of a forecast (around 7 per cent) rather than a target. This is an important example of China's new pragmatism.

It is equally important that we in the west update our perceptions of the new sources of growth emerging in China. All too often, the image of the Chinese economy is painted largely by the travails of a creaky and inefficient network of state-owned enterprises (SOEs). Yet there is a very different and too rarely appreciated source of Chinese economic growth – township and village enterprises (TVEs).

TVEs are the modern-day equivalent of the old Chinese collectives, and are among the most flexible, productive and technologically advanced of China's producers. They stand in sharp contrast to the older and more inefficient SOEs.

Interestingly enough, in 1997, TVEs accounted for 38 per cent of China's industrial output, well in excess of the 26 per cent share of SOEs. And this growth impetus seems set to expand. Last October, China's Securities and Regulatory Commission announced major initiatives to encourage the listings of TVEs in domestic equity markets.

It is hard to appreciate China's new pragmatism without going there. Its new leadership is willing to learn and reluctant to preach. China is *not* standing still

China has also become more pragmatic in balancing the sources of growth. In an effort to compensate for the shortfall in export demand, China has relied increasingly on an aggressive public sector infrastructure stimulus.

Such an investment-led strategy can be very risky. It opens the door to a potential imbalance between supply and demand that could further exacerbate deflationary forces. So it is encouraging to hear China's top policymakers now speak openly of meeting this challenge head on by limiting investment on the supply side and encouraging personal consumption on the demand side. Recently, government officials told me that they would be ordering state-owned manufactures to cancel capacity expansion programmes set for the next three years.

This is not bluster. China's State Metallurgical Industry Bureau recently issued an edict in effect banning all expansion programmes in the iron and steel industry until 2000. Apparently, it is not just the quality of growth that now matters in China, but it is also the balance.

With respect to its oft-maligned financial sector, China is now doing the heavy lifting that the rest of Asia has assiduously ignored. Central bank reorganisation plans were announced in 1998 and are now moving forward; the current fragmented provincial system is being replaced with a Federal-Reserve-style model with nine regional mega-branches. The first, and most powerful of these branches has opened in Shanghai and the other eight are set to be unveiled shortly.

At the same time, I am appalled at the criticism China has received for the recent closure of GITIC (Guangdong International Trust and Investment Corporation). Keep in mind that all 240 of China's ITICs – of which GITIC is but one piece – account for just 3.5 per cent of the assets of the overall financial system.

Japan has been attacked for its unwillingness to close troubled institutions. Yet when China finally moved against GITIC, people around the world screamed in protest. Talk about hypocrisy! Yes, China has a complex problem in its largely state-owned banking sector. But with most of its non-performing loans continuing to be obligations to state-owned enterprises, these problems should be viewed as more of a hidden fiscal cost than a classic Asian-style banking crisis.

Finally, the fate of the Chinese currency is no longer the burning issue that it was. In contrast to widespread expectations, China did not devalue in 1998. Nor does it seem likely that the currency will be in play in 1999. The view inside China is that the currency factor is vastly overblown. China's export shortfall is obviously worrisome, but it is widely viewed to be more a by-product of a sluggish state of global demand than a pricing disadvantage stemming from an over-valued currency. Nevertheless, China is prepared for renewed pressure on its currency, especially if the yen weakens sharply further in 1999, as many expect. Fortunately, China has strong currency defences – a closed capital account, a large current account surplus, a vast reservoir of currency reserves and limited exposure to external debt. Speculative attacks notwithstanding, the currency – including the Hong Kong peg – should continue to hold.

It is hard to appreciate China's new pragmatism without going there. I continue to be impressed with the candid and inquisitive nature of the country's new leadership. They are willing to learn and reluctant to preach. They speak openly of risks and do so with a frankness that others might learn from. They are moving rapidly in some areas and slowly in others.

But China is not standing still. With the rest of Asia moving rapidly in reverse, China's progress is all the more astounding. In short, China has not been dragged under by the Asian crisis. Nor will it be in the foreseeable future. The unarguable fact is that China has defied conventional wisdom for most of the past year, and it behoves us to understand why. It is time that we in the west give credit where credit is due.

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Stability forum

The proposed new financial stability forum, bringing together central bankers, finance ministers, financial regulators and multilateral organisations is a sensible idea. But meetings alone will not make international financial markets a safer place. Rules, surveillance and enforcement are required.

The first task for Andrew Crockett of the Bank for International Settlements, the inaugural chair of the forum, must be to determine what the Group of Seven leading industrial countries actually want from the forum they are creating. This is not yet clear.

The job of the forum should not be that of a global super-regulator. However, the emerging market financial crises of the last few years, as well as the Long-Term Capital Management debacle, demonstrate that national regulators, working individually, can fail to spot problems in the making. Improved information-sharing, surveillance and better links between existing bodies should help.

The forum can go further. Agreed standards, codes of conduct and transparency requirements can improve the efficiency of markets. Consistency of standards among supervisors is required in increasingly integrated financial markets. Where there are gaps, such as over accounting standards, these should be plugged.

But enforcement is also needed. The Basle Committee on banking and the International Organisation of Securities Commissions have long had codes and standards – which countries said they met. The Asian crisis showed that, without credible policing, signing up to standards means little.

The forum should provide incentives for countries to meet agreed regulatory standards, and sanctions where they do not. A published, credibly compiled list of countries that meet and fall short of its standards is the first step. This could be drawn up in conjunction with the International Monetary Fund's proposed assessment of pre-qualification for IMF programmes.

This raises problems which Mr Crockett must address. The forum will benefit from having politicians among its members, but it must not politicise financial markets.

Moreover, there is a trade-off between enhancing the legitimacy of the forum, which requires quickly inviting emerging markets to join, and ensuring its efficiency, which means keeping the committee small enough to get things done. Finally, the notion that anything can be achieved at twice-yearly meetings beggars belief. More regular meetings, at least of regulators, are required.

CAP's last gasp

For once, the thousands of angry farmers demonstrating on the streets of Brussels are unlikely to be able to stop the inevitable process of reforming the European Union's indefensible common agricultural policy. They are understandably anxious to preserve their livelihoods, which are threatened by a widespread crisis in the industry. But they must realise that the traditional tools of the CAP – price subsidies and import protection, causing repeated bouts of over-production – have got to go.

The danger is that in the haggling to curb the wilder excesses of the old system, Europe's farm ministers will produce half-hearted reforms, which fail to establish the basis for a stable and competitive farm sector in the EU. That has been their wont in the past. This week they have the chance to be more radical, and they must seize it.

There are three parts to the package on the table. One is to agree substantial price cuts for key products – 30 per cent in the case of beef. That is an essential precondition for everything else.

The second is to institute a system of regular annual cuts in direct subsidy payments, to be known in the Brussels jargon as "degressivity". Those subsidy payments will first be raised, to "compensate" the farmers for the price cuts, but thereafter they will be steadily reduced. That is essential if the cost of the CAP is to be controlled, and farmers are to become competitive. It is by no means perfect, but it is a big change, and it should be politically feasible.

The third element in the package is known as "co-financing". It means that part of the subsidies would be paid by national exchequers, and not by Brussels, although everyone would have to abide by the same rules. That means big net contributors to Brussels, like Germany, the Netherlands and the UK, would pay less, and big net beneficiaries from farm spending, like France, would pay more.

France says you can have degressivity as an alternative to co-financing, but not both. That is wrong. Co-financing will not only reduce the unfair distribution of EU spending. It should also ensure that farm ministers are directly responsible for the consequences of their own spending decisions. It is an essential part of curbing its excesses.

It is probably too much to expect that the farm ministers will agree the whole package this week. But if they want to decide the future of the CAP themselves, they must go a long way. Otherwise the task of finishing it will be left to the EU finance ministers, who are likely to be much less sympathetic to the protesting farmers, however many stones they throw.

Cuba ices up

Any lingering hopes that Cuba's limited embrace with the market might lead to full-scale political and economic liberalisation have faded over the past few days. Last week's announcement of a draconian clampdown on internal dissent has confirmed the grip of the hardline Communist party on Cuban society.

The measures will further restrict the individual freedoms of ordinary Cubans. Dissidents who collaborate "in any way" with attempts by the US to apply its long-standing trade and investment embargo or to subvert Cuba's system of one-party rule face up to 20 years in jail. Even possession of information judged to be subversive carries a potential term of 10 years.

Fidel Castro, Cuba's president, is further away than ever from implementing the recommendations for greater political expression and association recommended by the Pope during his historic visit to the island just over a year ago.

This new repressive law, however, also shows that much of US policy towards Cuba continues to be counter-productive. The trade and investment embargo, condemned as unjust and ethically unacceptable by the Pope, was modified in January by Bill Clinton, the US president. It will now be easier, for example, for US citizens to fly to Cuba or send dollars to their friends or relatives who live there. Those changes could have a positive effect by helping bolster a fledgling private sector that has begun to develop since the dollar became legal tender in Cuba in 1993.

But the embargo remains intact, together with the Helms-Burton legislation that attempts to restrict other international economic links with Cuba. In the eyes of the Cuban regime the US policy has unacceptable political goals. It is designed to strengthen civil society – non-government institutions – and thereby weaken the government's stranglehold over political life.

The new policy is being seen as even more of a threat by Mr Castro and his hardline supporters. It has left them more determined than ever to maintain their one-party regime and their state-dominated economy whatever the cost. Hence the clampdown.

The international community must condemn this repression. But the US administration must also recognise the evident deficiencies in its own policy. A multilateral approach that builds on the more constructive relationship established by Canada and a number of European governments, would be a better alternative.

Unless there is change in Washington, especially on the trade embargo, the circle of mutual antagonism that has bound US relations with Cuba for the last 40 years will continue to restrict the room for democratic change.

Italy's capitalist renaissance?

Paul Betts and **James Blitz** ask whether Europe's biggest takeover battle, for Telecom Italia, is business as normal or evidence of a new phase of Italian corporate life

Italians have never been called to vote in such an unusual referendum: nothing less than the future of capitalism in Italy.

That, at least, is how Roberto Colaninno, the chief executive of Olivetti, sees his audacious $58bn weekend bid to take over Telecom Italia, the privatised telecommunications group and the country's largest company in terms of stock market capitalisation.

"This is the equivalent of an election campaign," he said. "Nearly 2m small shareholders will have to vote one way or the other." The choice, as Mr Colaninno sees it, lies between the old way and the new, between a closed system in which coteries of influential business princes do secretive deals and a more open one, suitable to the world of the euro, with a greater role for outside shareholders and more transparent corporate governance. At any rate, that is the idea. Whether it is justified is a different matter.

Certainly, Italy has never seen anything like it. A hostile bid by a company on the verge of bankruptcy two years ago for a flagship of Italian industry five times its size. A takeover battle which has only just begun and is likely to be one of the largest ever staged in Europe. All this in a country accustomed to cosy behind-the-scenes deals engineered by an elite group of financiers and industrialists and their political sponsors.

For the past four decades, Italy's so-called post-war "economic miracle" was built around a vast and vibrant network of small and medium sized family enterprises strong enough even to offset the dead hand of an inefficient state. This network was flanked by large financial and industrial groups under state control and under-capitalised large private industrial enterprises such as Fiat, the automotive conglomerate; Pirelli, the tyre group; Montedison, the chemicals company, and Olivetti itself, then a typewriter and computer manufacturer. At the centre of this network of private sector alliances was Mediobanca, the influential and secretive Milan merchant bank which played host in the so-called *salotto buono* (drawing room) of Italian private finance. With large groups controlled by a cascade of holding companies, and with minimum capital outlays for the country's corporate dynasties, it was, as one Italian banker put it, "capitalism without capital".

This system already started coming under pressure in the 1980s. The Tangentopoli or "Bribesville" scandals of the early 1990s broke both the mould and the old "entente" between politics and business. The pressure of change was further accelerated by external events. Qualification for Europe's economic and monetary union meant a transformation in both public and private attitudes. Globalisation was also forcing big Italian financial and industrial groups to adapt. In short, the old ways of doing business in Italy were no longer sufficient to ensure longer-term survival.

Olivetti's highly leveraged Italian-style takeover bid for the old telephone monopoly is undoubtedly the biggest manifestation of how times have changed. The privatisation of Telecom Italia 16 months ago left the company with a nucleus of core shareholders including large financial institutions and the Agnelli family (who control Fiat) with an overall stake of no more than 7 per cent. All the rest was sold to 2m small shareholders who have now to decide what to do with their shares.

On the surface at least, Mr Colaninno and his partners, a group of financiers and industrialists from Italy's rich north-eastern region, appear to be testing Italy's new modern capitalist system. Only a few years ago, a leveraged bid of such a size, led by a combination of US banks as well as the ubiquitous Mediobanca, would have been inconceivable. As one Milan investment banker put it: "It shows that Italian companies can now raise substantial sums, even if the Olivetti operation seems an odd way to raise money. But the possibility is now there and wasn't a few years ago."

The Olivetti bid has also been described as a new approach to business by politicians, led by prime minister Massimo D'Alema. The former Communist has never hidden his dislike of the way in which Italian business has been manipulated by the *salotto buono*. "We had to beg people if they could please acquire a 0.6 per cent stake in Telecom Italia," he said last week, recalling the difficulty the Treasury had two years ago in setting up a stable shareholding base for the company. The Agnellis ultimately acquired such a stake and the government has openly criticised their excessive influence in the company on the basis of such a meagre capital outlay. Mr D'Alema's aides have since left little doubt that the prime minister backed the Olivetti bid as a way of dealing a slap in the face to the old guard.

But despite all these signs of change, it might be more accurate to describe the bid as evidence that the old system is becoming unworkable, rather than proof that the new one is up and running. "This idea that the Olivetti bid opens a new phase in Italian capitalism is a load of nonsense," said a leading Italian industrialist yesterday. "The current political establishment appears to be as ignorant as the old Christian Democrats."

Certainly, the prime minister's intervention has underlined the government's continuing role in the affairs of Italian business and finance in spite of privatisation and its supposed conversion to a more open market. Mr Colaninno held negotiations with ministers before launching Olivetti's bid to ensure their support. His concern went beyond the knowledge that

'To suggest we are in the throes of a renaissance is far-fetched. But to say nothing has really changed is misleading'

the government continued to retain a golden share and therefore could retain influence. He knew that a successful bid would require a significant restructuring of Telecom Italia that risked confrontations with Italy's powerful trade unions.

Mr D'Alema, whatever his feelings about the *salotto buono*, is far from being a free marketeer. His government announced last week electricity liberalisation plans, for example, that smack of compromise, doing little to satisfy those who want distribution and sales fully separated. No less striking was his government's action to obstruct Rupert Murdoch's attempts to enter the Italian pay television market by imposing a ceiling on rights for pay TV soccer. Mr Murdoch had wanted to bid for the entire soccer rights for Italy's first and second divisions.

The role of Mediobanca, still led by its 92-year-old honorary chairman Enrico Cuccia, who is often described as "Italy's most powerful banker", has raised many eyebrows. Mediobanca had been responsible for the original flotation of Telecom Italia. Now it has switched sides and is helping finance Olivetti's bid. It has taken along with it some of its traditional allies such as Assicurazioni Generali and Banca Commerciale Italiana. These two institutions, both with seats on Telecom Italia's board, are understood to be considering changing allegiances and backing Olivetti.

Mediobanca has seen its influence wane in recent years. US investment banks have made substantial inroads in Italy at the expense of the secretive Milan institution. It has faced a string of embarrassing flops including the failed attempt to merge the Marzotto textiles and clothing company with the HDP holding company (which controls a variety of assets from the Rizzoli publishing group to the Valentino fashion house). Some of its brightest stars have deflected to other banks such as Lazards. Even Fiat, once Mediobanca's ally, has moved away, as it refocuses itself on its core activity in the face of the consolidation in the world car industry.

That is characteristic of the older, traditional Italian private groups. They have been quietly adapting themselves to the new realities: refocusing on core activities and seeking international partnerships, mergers and acquisitions to remain competitive.

The once highly fragmented Italian banking and insurance sectors have also been consolidating, creating new combinations challenging the old Mediobanca dominance. And Mediobanca has in the process been desperately seeking to safeguard its own future by promoting a merger of Banca Commerciale Italiana and Banca di Roma, both large shareholders of Mediobanca. But Banca Commerciale has been reluctant to tie the knot. So, Milan investment bankers suggest, Mediobanca has moved to help Olivetti in an effort to curry favour with the government and gain support in Rome for its long-sought banking merger.

Scratching under the surface, there is a strong temptation to dismiss the events of the past few days as a variation of an old Italian theme. "To suggest we are now in the throes of a renaissance in Italian capitalist attitudes is far-fetched to say the least," said a veteran Milan investment banker. "But to say nothing has really changed would also be misleading."

The Olivetti bid is testing Italy's new takeover rules and is likely to herald a string of other deals. Italian companies are for the first time seriously looking beyond their borders to expand now that they no longer feel protected in their own country. Companies are being forced to address shareholder value rather than pursue their old power games. But it remains a painful and confused process.

"Our industrial and financial companies, big and small, know they have to change their ways," said another banker. "Things are happening, but it's two step forwards, one step back - rather like crabs."

OBSERVER

Iron lady melts away

The Botín family of Santander in northern Spain has always avoided personal publicity. And Ana Patricia Botín used to be no exception. It's hard, though, when you're one of your country's most successful female executives – and seemingly linked to just about everyone of any standing in Spain.

Not only is Botín in line to inherit a fortune, but her father is chairman of Spain's largest bank, her mother Paloma O'Shea is patroness of a prestigious international piano competition and her sister is married to top golfer Severiano Ballesteros.

"AP", as she is known in Banco Santander, is a one-time junior golf champion, Harvard alumna and a former fast-track executive at JP Morgan. But now she finds herself on the cover of a Sunday colour magazine. The portrait of "The Iron Lady Banker" identified her as the person to take over from her father at the mega-bank now being formed between Banco Santander and Banco Central Hispano.

Trouble is, it might have looked too much like a bid for power. All too clearly, it fingered her as the favourite of her grandfather who ran Banco Santander for 36 years. So insiders reckon the article acted as the detonator for the 38-year-old Botín's sudden resignation yesterday as head of investment banking at the Santander group.

Grandfather knew a thing or two about discretion. In his long life, he apparently gave only five interviews.

More hot air

Anwar Ibrahim, the sacked deputy prime minister of Malaysia, got the day off from his trial on charges of committing sexual misdeeds and related abuses of power yesterday when a curious object floated on to the verandah of the federal courthouse.

Police quickly evacuated the building, suspecting an explosive device. So a bomb disposal team secured the area and fired on the uninvited guest, creating a loud explosion. But the wayward object turned out to be a meteorological device that had been suspended by a balloon and fell to earth when it lost its air pressure. The excitement was too much for the court, which called it a day. Perhaps the weatherman is on Anwar's side.

Tsar Nikita

Anyone looking for clues about the views of Nikita Mikhalkov, the Russian film director thinking about running for president, could do worse than watch his latest epic *Barber of Siberia*, just premiered in Moscow.

Apart from being as long and meandering as the average politburo speech, the three-hour film takes more than a few pot-shots at modernism and the west. Not that that stopped Mikhalkov from accepting three-quarters of the funding from foreign backers.

But of most concern is his choice of historical period: the reign of Alexander III, which he glamorises in spite of its vile reputation for human rights abuses, pogroms and generally undemocratic ways. And guess who plays the part of the bearded Tsar?

Sounds familiar

The plan by Storebrand, Norway's largest insurer, to merge its property and casualty businesses with fellow insurer Skandia, stirs some not-so-ancient memories.

Storebrand tried to acquire Skandia in 1991 in an unsuccessful hostile takeover that led to the predator's bankruptcy. Now, Age Korsvold, the man who became chief executive of Storebrand when it rose from the ashes in 1993, is having another attempt at marriage, though on a more modest scale.

But Korsvold is the same man who served as one of the financial advisers in 1989 on Skandia's acquisition of insurers Vesta – a deal which could now prove the undoing of the proposed merger. Norway's competition authorities may be unhappy that, between them, Storebrand and Vesta will together control more than half of the property and casualty market; they could demand the sale of Vesta before allowing any deal to go through. So what Korsvold once wanted to buy, he may end up having to sell.

Damp squib

The spectacular fireworks display that ushers in the Chinese new year in Hong Kong may be one of life's unforgettable experiences – but nowadays no one seems that keen on paying for it.

The show that's just seen out the Year of the Tiger was impressive enough, as were the strenuous efforts that went into finding organisations to fund it. Last year, Hong Kong companies fought ferociously for the honour of footing the bill but this time a tougher financial climate and strained relationships with Beijing sent many of them running for cover.

So who came to the rescue? Step forward two organisations with strong links to the mother country. The Federation of Hong Kong Guangdong Community Organisations and the Mission Hills Golf Club in Shenzhen finally agreed to split the HK$6m bill. It's a costly business, keeping sweet a sometimes wayward special administrative region.

The Financial Times 100 years ago

The New President Of France Is Not Popular

From Our Own Correspondent, Paris. The new President of the French Republic is an excellent man in many ways, and quite up to the level of his immediate predecessor. But unfortunately for himself and for the very unsatisfactory condition of public opinion in France, he is not popular with the masses. I am not alluding to the puerile demonstrations got up by the rowdies of the Ligue des Patriotes and by the usual riff-raff of Paris. I refer to the impression of the man in the street and of the respectable classes of the public. In the clubs, the cafés, the suburban trains and everywhere that people congregate the one topic of conversation in the past few days has been the election of President Loubet, and it is noticeable that an impression of unrest and distrust seems to prevail. The French are beginning to clamour for a leader. Unfortunately for the new President, his candidature was from the first pushed forward and taken up by the Dreyfusite party. The President has been cleverly presented by the Dreyfusite and Socialist organs as their own particular candidate.

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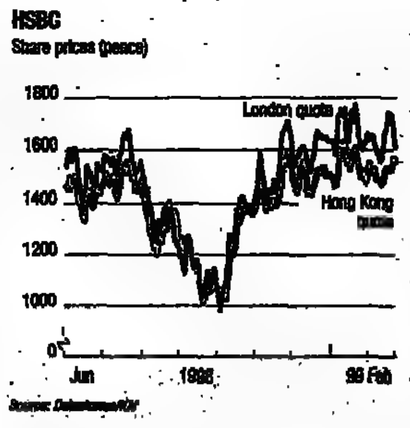
THE LEX COLUMN

Kowtowing to investors

Buffeted by the economic recession in Asia, HSBC is losing some of its imperial hauteur. Until now, the bank has shunned the language of shareholder value, referring those impudent enough to question its strategy to its impressive growth record. Things have changed. Yesterday, it promised to double shareholder returns over five years and mooted the possibility of share repurchases – both firsts. Even the group structure, hitherto considered inviolate, is now up for discussion.



Clearly, some of this is mood music at a tough time for the bank. HSBC has not actually promised to buy back any shares. Indeed, it stressed yesterday there was no surplus capital to return. And, to be fair, HSBC is actually faring pretty well, given the pressures it is under in Asia. The 6 per cent improvement in operating profits was some achievement – vindicating, at least for now, its broad spread of businesses. Even the $2.6bn bad debt charge looks tolerable in the context of a $250bn loan book.

But John Bond, chairman, has recognised the group will have to sharpen its act to retain investors' loyalty in the face of a prolonged Asian recession. Surplus capital, for instance, could become an issue as asset growth slows, although for now HSBC's capital strength remains an asset. Scrapping the dual-share structure, meanwhile, will eliminate the discount on the Hong Kong shares that has resulted from flowback to the UK. But Mr Bond will have to do more to convince investors of his new shareholder friendly style.

Olivetti/Telecom Italia

Remember the Chinese boxes that used to infect Italian capitalism? The idea was to control the maximum amount of industry with the minimum amount of capital. This was achieved via a cascade of holding companies, each owning a stake in the company below it in the hierarchy. Carlo De Benedetti, Olivetti's former chief executive, was a particular master at the art.

In Olivetti's current bid for Telecom Italia, Chinese boxes have staged a comeback – with a vengeance. At the top of this particular pyramid sits Roberto Colaninno, Olivetti's current chief executive. He owns 15 per cent of a holding company that owns 40 per cent of Bell, a Luxembourg company that in turn owns 15 per cent of Olivetti. That gives him effective control, despite an economic interest of only 0.9 per cent.

But that is not the end of the story. Olivetti is not bidding for the whole of Telecom – only its ordinary shares. The savings shares, which represent 29 per cent of Telecom's equity but do not vote, will not be taken out. Nor is Olivetti making an offer for the minority of Telecom Italia Mobile, Telecom's mobile communications subsidiary. The reason is clear enough. If Olivetti bought them all out, the cost of the €53bn bid would increase to €90bn. And, given that it is a relative pygmy, Olivetti just could not afford such an increase without destabilising its pyramid.

That leaves the final piece of this Chinese puzzle: leverage. Under Olivetti's scheme, Telecom would be loaded up with about €42bn of debt. That again serves the goal of enabling Mr Colaninno and his mates to control a gigantic enterprise with a tiny amount of equity.

The snag is that this cascade structure is unlikely to appeal to Telecom's savings investors and TIM's minority shareholders who will be left on the outside. And the fact that many will also be ordinary Telecom shareholders means Olivetti will face pressure to sweeten what is an extremely cheap offer. Given the high gearing, that might seem a tall order. But debt can also be an advantage: it will clip around €1bn a year off Telecom's tax charge. And there is the potential to recoup up to €15bn by selling Telecom's overseas assets and non-core assets at home. An aggressive asset stripper would also liquidate the entire TIM investment. That is worth €26bn at current market prices, though a sale to an industry bidder like British Telecommunications would surely fetch a premium.

How any of this would play with the Italian government – which initially welcomed Olivetti's initiative in part on the theory that it would keep Telecom in Italian hands – is another matter. Olivetti is already planning to sell its existing telecoms business to Germany's Mannesmann. Selling TIM to the Brits might be too much to stomach.

Thai restructuring

Thailand's relative willingness to countenance foreign takeovers is beginning to pay off. It was south-east Asia's largest destination for foreign investment last year, mainly as a result of multinationals buying out local joint venture partners. Now more deals are in the pipeline as debt restructuring begins to pick up speed. These are needed to repair corporate balance sheets. Although the economy is beginning to recover, half the loans outstanding to Thai companies are still non-performing. This acts as a drag on the banking sector and prevents it from providing the capital companies need to bounce back.

Until recently, there were structural obstacles to such change. For one thing, banks were often too weak to bear the write-downs involved. An equally impenetrable barrier was that Thailand's archaic bankruptcy laws favoured creditors over debtors. This had the effect of encouraging shareholders to fob off banks rather than accept deals that would dilute their interest.

Now there are signs of a more favourable environment for action. Banks have recapitalised sufficiently to bear the write-offs, while a drizzle of restructurings has given the necessary experience of how such deals work. More importantly, the Thai government has started reforming the bankruptcy laws to give greater powers to creditors. If these force debtors to accept restructurings, today's trickle should become tomorrow's flood.

Japan's trade surplus up by 87% as imports fall

By Julie Hess in Tokyo

Japan's global trade surplus rose to Y760.3bn ($6.3bn) last month, 87 per cent up from a year earlier, as a result of record low imports. But the bilateral surplus with the US declined slightly.

The big drop in imports, the 13th consecutive monthly decline, was due to Japan's worst post-war recession and sluggish private demand.

The value of imports was also undermined by the 14.7 per cent appreciation of the yen to an average Y114.1 against the US dollar during the month compared with January 1998.

Exports fell 10.7 per cent to Y3,450bn on a customs-cleared basis, but imports slid 22.1 per cent to Y2,689.7bn.

Most analysts were surprised by the size of the increase in the trade surplus. Brian Rose, economist at Warburg Dillon Read, said: "Imports were lower than expected. The drop in imports was mainly because of falling prices, like for oil. However, we think that the decline in prices will abate." Mr Rose expected a fall in trade volume for the current year, with exports and imports continuing to decline.

The politically sensitive trade surplus with the US fell 2.2 per cent to Y487.2bn, with exports dropping 13.6 per cent and imports decreasing 20.8 per cent. Exports were dragged down by lower sales of computer parts, office equipment and steel.

While these declines are likely to ease fears of renewed trade frictions with the US, the depreciation of the yen could trigger another increase in exports, warned analysts.

The yen was traded at Y122 to the dollar on Monday, up Y8 from January's average. Trade rifts with the US were likely to re-emerge, according to Mr Rose, because Japan was less willing to negotiate on import regulations, such as tariffs.

But Peter Morgan, economist at HSBC, said: "I don't think that there will be a trade conflict with the US considering the strength of the US economy."

The latest figures were also released in the wake of the meeting of finance ministers and central bankers from the Group of Seven leading industrial nations at which the tone towards Japan was much warmer than at previous gatherings.

According to yesterday's figures, released by the Ministry of Finance, Japanese trade with Asia showed the first improvement in 11 months. Japan recorded a surplus of Y120.8bn compared with the deficit in January last year of Y36.6bn – the result of a 9.4 per cent drop in exports and a 21.3 per cent decline in imports.

Reports that Japan's Ministry of International Trade and Industry would raise trade insurance premiums for Indonesia, Thailand and Malaysia from April have also damped prospects for a pick-up in exports to Asia.

Japan's trade surplus with the European Union increased sharply by 31.1 per cent to Y275.1bn. Exports fell 1.4 per cent – the first decline in 25 months – on the back of lower sales in office automation products. Imports were down 16 per cent.

US running out of answers, Page 8

UK signals commitment to Europe's single currency

By Robert Peston in London

Tony Blair, UK prime minister, will today end months of equivocation and signal a clear commitment to taking Britain into Europe's single currency early after the next general election.

In his first significant political statement to the Commons on the euro, Mr Blair will unveil a national changeover plan to pave the way for a Cabinet decision to join monetary union in 2001 or 2002.

But Mr Blair will not give a precise timetable for joining the 11-member euro-zone, which will disappoint the pro-European lobby and bigger UK companies.

Mr Blair's long-awaited statement marks a belated start to a campaign to persuade a largely sceptical British public to support economic and monetary union in a referendum after the next general election. The prime minister will reiterate that there is no constitutional bar to membership, but that Britain must meet a series of economic tests.

Ministers fear a severe backlash from the Eurosceptic British press, led by Rupert Murdoch's Sun tabloid.

"It's probably the end of our love-in with Rupert," said one. "Tony's views will be crystal-clear, as we at last try to move public opinion our way."

Mr Blair will commit the government to spending millions of pounds on consultancy and related preparations for modernising payment systems at the department of social security, the inland revenue and customs and excise.

The Treasury has been advised it does not need legislation for this kind of expenditure, but Mr Blair will signal he is ready to seek parliamentary approval for more substantial sums needed for upgrading these computerised systems.

The government hopes this will encourage business, notably big retail banks and retail chains, to start making serious plans for euro membership.

The changeover plan is a long, technical document drafted by the Treasury in consultation with leading business lobby groups, the Bank of England and the trades union congress. It covers the preparations required of the public and private sectors to facilitate the smooth introduction of the euro.

The plan will say there needs to be about 3½ years between a government decision to join and the abolition of sterling as legal tender. But business would have approximately 30 months to carry out all big investments, because this is the proposed lag between public assent to membership and the introduction of euro notes and coins.

In theory, the euro could become the sole currency in the UK by late 2004 or early 2005, but the plan is vague on the timing of the key economic event, the formal entry of the UK into the euro-zone through the locking of exchange rates.

The City believes markets need about a year to prepare their systems for fixing sterling's exchange rate with the euro.

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German chancellor Gerhard Schröder greets Palestinian leader Yasser Arafat before talks in Bonn on the Middle East peace process

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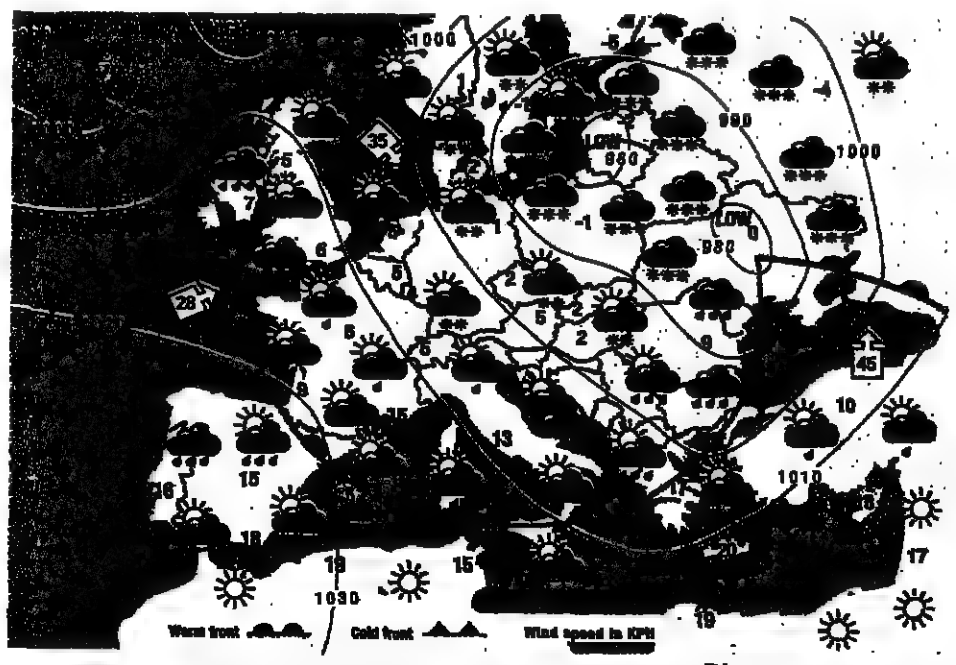
FT WEATHER GUIDE

Europe today
Southern and western Norway should stay dry with some sunshine. The rest of Scandinavia will be colder with sunshine and snow showers. Germany will have snow showers, with slightly heavier falls in the east. The Netherlands, Belgium, Austria and Switzerland will have showers, mainly of rain or sleet. Northern France will have showers, which will develop into longer spells of rain. The Iberian peninsula and Italy will have sunshine and showers, as will Greece, where the showers will be heavy and thundery.

Five-day forecast
Europe will stay unsettled for the rest of the week. As one area of snow moves away from the north, a second spell will move in from the west during Friday. There will be showers in the south, especially over Italy and the Greek mainland.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Fair	26
Accra	Fair	32
Algiers	Fair	19
Amsterdam	Shower	5
Athens	Shower	17
Atlanta	Cloudy	[illegible]
B. Aires	Fair	30
B.ham	Fair	6
Bangkok	Sun	33
Barcelona	Fair	14
Beijing	Rain	6
Belfast	Sleet	6
Belgrade	Cloudy	7
Berlin	Snow	1
Bermuda	Shower	18
Bogota	Fair	19
Bombay	Sun	34
Brussels	Shower	5
Budapest	Fair	4
C.hagen	Snow	2
Cairo	Fair	19
Caracas	Fair	28
Cardiff	Shower	7
Casablanca	Fair	17
Chicago	Snow	-8
Cologne	Snow	2
Dakar	Sun	23
Dallas	Sun	20
Delhi	Sun	28
Dubai	Fair	27
Dublin	Sleet	7
Dubrovnik	Fair	12
Edinburgh	Fair	5
Faro	Sun	19
Frankfurt	Snow	3
Geneva	Snow	5
Gibraltar	Sun	19
Glasgow	Fair	5
Hamburg	Snow	3
Helsinki	Snow	-5
Hong Kong	Fair	17
Honolulu	Fair	27
Istanbul	Thunder	16
Jakarta	Shower	29
Jersey	Cloudy	8
Johannesburg	Fair	26
Karachi	Sun	30
Kuwait	Fair	25
L. Angeles	Sun	23
Las Palmas	Fair	20
Lima	Fair	28
Lisbon	Fair	16
London	Fair	6
Lux.bourg	Snow	4
Lyon	Cloudy	5
Madeira	Fair	18
Madrid	Fair	15
Majorca	Fair	15
Malta	Shower	16
Manchester	Fair	5
Manila	Fair	31
Melbourne	Fair	33
Mexico City	Fair	24
Miami	Fair	31
Milan	Fair	11
Montreal	Sun	-8
Moscow	Snow	-4
Munich	Snow	2
Nairobi	Thunder	29
Naples	Fair	12
Nassau	Fair	25
New York	Fair	-1
Nice	Sun	14
Nicosia	Shower	19
Oslo	Sun	1
Paris	Fair	6
Perth	Sun	32
Prague	Snow	2
Rangoon	Sun	36
Reykjavik	Snow	-1
Rio	Fair	31
Rome	Fair	13
S. Frsco	Fair	16
Seoul	Fair	9
Singapore	Fair	30
Stockholm	Snow	-1
Strasbourg	Sleet	4
Sydney	Shower	25
Tangier	Fair	19
Tel Aviv	Sun	20
Tokyo	Fair	10
Toronto	Sun	-6
Vancouver	Shower	8
Venice	Fair	9
Vienna	Sleet	5
Warsaw	Snow	-1
Washington	Cloudy	2
Wellington	Sun	19
Winnipeg	Snow	-3
Zurich	Sleet	2

FINANCIAL TIMES
COMPANIES & MARKETS
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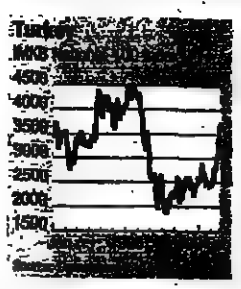
TUESDAY FEBRUARY 23 1999
Week 8

INSIDE

Tobacco producers to lobby WHO
Tobacco producers are to meet World Health Organisation officials next week in an effort to convince the UN agency that its campaign against tobacco could destroy the livelihoods of farmers in developing nations. The agency has pledged to reduce smoking-related diseases by discouraging tobacco consumption, and its plans include a global ban on tobacco advertising and sponsorship. Page 26

Doubts over Turkey's bull market



The Turkish stock market's rally of the past two weeks seemed to some observers to carry the hallmarks of news viewed through rose-coloured spectacles as the IMKB National-100 index fell 2.2 per cent after 10 straight sessions of gains. An aid agreement with the International Monetary Fund and the capture of Kurdish leader Abdullah Ocalan have contributed to the bullish sentiment. Page 36

Courtaulds saps profits at Akzo
Akzo Nobel, the Dutch chemicals group, said that Courtaulds, the UK paints and fibres company it bought last year, drained parent profits by Fl 55m (€25m, $28m) in the first six months of ownership. Page 18

Tokyo climbs on back of weak yen
The yen's continuing slide against the dollar buoyed the Tokyo stock market. The benchmark Nikkei 225 average rose 158.63 or 1.13 per cent to 14,256.67 as the yen fell to Y121.7 against the dollar. Page 36

CBOT considers contract changes
Directors of the Chicago Board of Trade, the largest futures exchange, are considering changes to its flagship US Treasury bond contracts to make them more appropriate in a low interest rate environment. Page 24

Japanese insurers' price war
Tokio Marine and Fire, Japan's largest casualty and property insurer, has found a novel way to beat competitors muscling in on the newly-deregulated insurance market. It has won business with a more expensive product. Page 20

Australian gold in demand
Surging production in the Australian gold industry coincided with record global gold demand in the fourth quarter of 1998, according to Australian data from the World Gold Council. Page 26

LMA to combat 'front-running'
The Loan Market Association, a trade group representing the loan markets in Europe, has issued guidelines designed to remove the practice of "front-running", which distorts the process of primary syndication. Page 24

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MARKET STATISTICS

SWEDISH GROUP ABANDONS ATTEMPT TO CREATE EUROPE'S LARGEST HEAVY TRUCKMAKER AFTER FAILING TO AGREE PRICE

Volvo halts Scania takeover talks

By Tim Burt in Stockholm

Volvo, the Swedish automotive group, has abandoned attempts to create Europe's largest maker of heavy trucks after breaking off takeover negotiations with Scania, its Swedish rival.

Shares in Scania, which is controlled by Investor – the main holding company for Sweden's Wallenberg industrial empire – fell 5 per cent to SKr208 after Volvo said the two sides had failed to agree on a valuation.

Volvo has made bid approaches to a number of truckmakers, including Scania and Navistar of the US, following the decision last month to sell its car division to Ford of the US for SKr50bn ($6.5bn).

"Volvo has declared its intention to participate in the consolidation in the commercial vehicle industry," said Leif Johansson, Volvo chief executive.

"The decision to terminate discussions [with Investor] does not imply any changes in this objective."

People close to the talks, however, described a merger with Scania as "very doubtful" unless the two sides could compromise on a bid price.

Volvo, which last month acquired almost 13 per cent of Scania, is understood to have offered SKr270-SKr280 a share for the heavy truck company. Investor is thought to have held out for SKr350-SKr375 a share, valuing the company at up to SKr75bn. At yesterday's closing share price Scania was capitalised at SKr40.2bn.

In spite of abandoning the talks with Investor, Mr Johansson warned that Volvo would not sell its Scania stake.

Volvo could use its Scania holding to prevent Investor selling to another bidder, such as Volkswagen of Germany or Fiat of Italy.

Investor, which controls 42 per cent of Scania's voting rights and 26 per cent of capital, condemned Volvo's tactics and particularly its continuing presence as a large minority shareholder.

"To have the strongest competitor as one of the largest owners is, in the long run, unsuitable for Scania," said Claes Dahlbäck, Investor chief executive.

The war of words between Volvo and Investor, seen as the two main industrial power bases in Sweden, has shaken the country's consensual business environment.

Industry analysts in Stockholm suggested that the two companies would have to resume talks in the longer term. "The situation is untenable. Investor wants to sell and Volvo needs to buy in heavy trucks," said one analyst.

Other analysts warned that Volvo could itself become a bid target if it failed to consummate a significant deal.

Volvo is understood to have explored a separate offer for Navistar that would more than double its market presence in the North American market.

The Navistar board, which is due to meet today, has so far made no formal response to Volvo's approach or confirmed the extent of the discussions.

In Stockholm, Volvo's most commonly traded B shares closed down SKr2 at SKr215.

Retreat in Scania battle, Page 18

Olivetti bid ruled 'not valid' by Italian watchdog

By Edward Luce and Clay Harris in London and Paul Betts in Milan

Olivetti's ambitious $58bn (€52bn) proposed bid for Telecom Italia suffered a setback last night when Consob, the Italian stock market watchdog, said the bid announced on Saturday was "not valid".

The Consob verdict leaves Telecom Italia free to organise its defences against Olivetti's hostile intentions.

Under Italy's new takeover regulations, once a formal takeover bid is launched, the target company is restricted in what defensive action and "poison pills" it can implement, and any defensive measure has to be approved by shareholders.

Olivetti, the Italian telecommunications group, announced on Saturday that it intended to bid for TI, offering €10 a share in cash, bonds and equity. However, the bid was conditional on various government approvals and other outstanding issues. Olivetti claims that its announcement on Saturday constituted a formal offer, but Telecom Italia had contested this.

Olivetti faces a formidable task in raising €36.2bn in debt for its proposed bid, senior bankers said yesterday. The debt, which would account for about two-thirds of the financing of the takeover bid, would include the largest loan taken out by a European company.

A similar move by Vodafone, the UK mobile telephone company, to raise an estimated $14bn to help finance its $66.5bn bid for Airtouch of the US is understood to be taking longer than expected owing to its unprecedented size.

"Vodafone looks like coming up against some capacity constraint in the international loan market and its deal has a strong transatlantic flavour," a senior European banker said. "The Olivetti bid isn't even European; it's purely Italian."

However, a senior official at one of the banks arranging the financing for Olivetti – comprising Lehman Brothers, Donaldson Lufkin & Jenrette, Mediobanca and Chase Manhattan – was confident they could build a large enough syndicate.

"We wouldn't have agreed to arrange this deal if we didn't think it could be done," said the official. Leading bankers also questioned whether Olivetti would achieve an investment grade credit-rating from Standard & Poor's and Moody's Investors Service. An investment grade rating would be essential for Olivetti to be able to raise the €12.7bn it plans to issue in bonds.

Bankers said the biggest difficulty would be syndicating the €22.5bn loan among the world's leading banks. The average individual subscription by a bank on a large international loan is about $200m.

In Milan, Telecom Italia shares surged to close 9.05 per cent higher at €9.86, close to Olivetti's €10 a share offer.

Franco Bernabè, Telecom Italia's chief executive, has called a board meeting for Thursday. Olivetti, whose shares yesterday fell nearly 7 per cent to €3, called a board meeting for tomorrow.

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Advisers bonanza, Page 18
European telecoms, Page 36

Graham Wallace: 'This is the time to exploit and build on what we have through aggressive team work' Ashley Ashwood

Wallace appointed C&W chief

By Alan Cane in London

Cable and Wireless, the UK-based communications group, yesterday moved to end questions over its future with the appointment of Graham Wallace, head of its cable TV and telephony operations, as chief executive.

There had been intense speculation that all or parts of the C&W group, which has operations in more than 70 countries, could be vulnerable to a predator following the abrupt departure of Richard Brown, the company's former chief executive, last December.

Mr Brown left to become chief executive of EDS, the US computer services company.

Sir Ralph Robins, C&W chairman, took advantage of Mr Wallace's appointment yesterday to state: "The company is not for sale and we have never appointed financial advisers to seek a buyer."

Mr Wallace said he did not intend to make immediate changes in the company's overall direction. He would continue Mr Brown's strategy of developing key investments while divesting interests where the company had neither influence nor control.

He aims to develop the group's experience in data transmission and its newly acquired North American internet interests. "This is the time to exploit and build on what we have through aggressive team work," he said. Mr Wallace, 50, has been chief executive of Cable and Wireless Communications, the UK cable television and telephony operator, since January 1997.

He was appointed by a committee of non-executive directors led by Sir Ralph. Sir Ralph said there had been a shortlist of 10 candidates. "It became an easy decision," he said. "Having measured our internal candidates against the best available elsewhere in the world, *I am delighted to say* Graham was clear leader."

Mr Wallace will find the charismatic Richard Brown, who restored C&W's morale at a critical time and focused the company on growth, a hard act to follow. However, he has the respect of the City which has applauded his skill in bedding down Mercury Communications, the telephone operator, and three cable operators into C&WC.

Lex, Page 16

GE Capital planning to expand in Japan

By Gillian Tett in Tokyo

GE Capital, the US financial services group, is "aggressively" seeking to expand in Japan with acquisitions in areas such as consumer finance, according to Denis Nayden, group president.

"As [Japanese] companies are recapitalised or sold off we will be aggressively looking to expand," he said.

GE Capital has made a series of acquisitions of failed Japanese companies. Last month it bought Japan Leasing, the country's second largest leasing group and affiliate of the Long Term Credit Bank. Last year it bought the new business to be written at Toho Mutual, the troubled life assurance group and acquired Lake, the consumer finance group.

The group's plans highlight the degree to which Japan's economic problems are creating opportunities for foreign groups. GE Capital's tactics are being closely watched in the financial industry, since it has been one of the first foreign financial companies to expand in Japan through direct acquisition.

Most other foreign financial groups, by contrast, have built their businesses in Japan through organic growth or loose mergers, because they fear direct acquisitions could be too risky or expensive.

Mr Nayden, however, insisted that direct acquisitions can be effective in Japan because the financial turmoil has forced the government to drop its opposition to foreign companies taking full control. Apart from Japan Leasing, the government is also seeking to sell LTCB and Nippon Credit Bank, the failed banks.

Mr Nayden also insisted GE Capital had protected itself from any hidden liabilities in its deals with Japan Leasing or Toho Mutual.

GE Capital refuses to reveal the purchase price for its acquisitions or results from its Japanese operations. However, the deal with Japan Leasing is believed to be one of the largest by a foreign company.

GE Capital has also acquired several consumer finance and car leasing companies in the past four years.

These have left GE Capital controlling around $12bn worth of assets in Japan, compared with its global assets of around $300bn.

Big in Japan, Page 20

Securitas agrees $385m takeover of Pinkerton

By Tim Burt in Stockholm and Andrew Edgecliffe-Johnson in New York

Pinkerton, one of the world's most famous private investigation and security companies, was yesterday captured by Swedish rival Securitas for SKr3bn ($385m, €448m).

The US group – whose motto "we never sleep", shown in its unblinking eye logo, dates back to the pursuit of outlaws such as Jesse James – will become part of Europe's largest security services company following an agreed takeover.

Securitas, which provides alarm services, cash-in-transit deliveries and guarding operations, said the deal would create the world's leading security company with combined sales of SKr27bn and some 114,000 employees.

It vowed to expand Pinkerton's investigative activities in Europe.

The merger, following six weeks of talks, is Securitas' *first move into the North American market*. In the past two years, it has spent SKr7bn on acquisitions in Europe.

"It is a milestone for the security industry. This step provides a strong second platform to replicate the significant growth we have experienced in Europe," said Thomas Berglund, chief executive.

Securitas said it would retain and develop the Pinkerton brand in the US, where it is the third largest provider of guarding services behind Borg Warner – owner of Wells Fargo – and Wackenhut. The fragmented US security industry, which has about 20,000 rival groups, has recently undergone rapid consolidation.

Guard services accounted for 87 per cent of Pinkerton's $875m sales last year, but it remains best known for its national detective agency founded in Chicago in 1850. It was also credited with saving President Abraham Lincoln from assassination in the so-called Baltimore Plot.

James McCloskey, chief financial officer, said the deal "brings our customer base a wonderful opportunity to get security on a global basis". Pinkerton, which also provides pre-employment screening, risk assessment and security systems integration, could offer Securitas "an incredible array of global customers".

Pinkerton's fourth-quarter results, released yesterday, showed a slight increase in full-year revenues to just over $1bn, but restructuring charges knocked it from a $14.7m profit to a $453,000 loss.

Securitas will pay $29 a share for Pinkerton – over 45 per cent more than the average share price in New York in the last month. In early trading yesterday, Pinkerton shares rose more than $11 to $28⅛. While in Stockholm, Securitas's most commonly traded B shares climbed more than 20 per cent to SKr139.50.

Securitas will acquire a 30.6 per cent stake in Pinkerton, from Thomas Wathen, chairman. The Swedish group says it has won support from shareholders accounting for 46 per cent of Pinkerton.

Securitas is funding the deal with a $440m loan facility from Deutsche Bank.

FINANCIAL SERVICES LIFE ASSURANCE GROUP TAKES FIRST STEP INTO PRIVATE BANKING WITH SFr2.4bn PURCHASE

Swiss Life to acquire Gotthard Bank

By William Hall in Zurich and Gillian Tett in Tokyo

Swiss Life, Switzerland's biggest life assurer, yesterday moved into private banking with an agreement to pay SFr2.4bn ($1.66bn) for Gotthard Bank, Switzerland's biggest foreign bank.

Swiss Life has bought a 53.5 per cent stake from Japan's Sumitomo Bank, for about SFr1,500 a share, and intends to make an offer of SFr1,404 a share for the publicly quoted minority.

The acquisition comes less than a year after Generali, the Italian insurer, paid SFr1.92bn for Banca della Svizzera Italiana, Gotthard Bank's main competitor in the Italian-speaking part of Switzerland.

Both moves underline the increasing blurring of the lines between private banking and insurance. Last week UBS, Europe's biggest bank and Swiss Life's main shareholder, said it would sell its 25 per cent stake because of the growing competition between the two groups in the area of European asset gathering.

Swiss Life, which has made several abortive bids for foreign insurers, is keen to diversify into faster growing businesses to offset its heavy dependence on Switzerland's mature life assurance market. It is paying 22 times 1998 earnings, and about 2.8 times book value for Gotthard Bank, which has assets under management of SFr31bn and more than 1,000 staff.

Although some analysts have questioned the wisdom of buying a private bank based in Lugano, rather than Zurich or Geneva, Dominique Morax, Swiss Life's chief financial officer, said northern Italy was one of the fastest growing markets for private banking.

He described Gotthard Bank as a "pearl" and noted that "if you buy a pearl that is cheap, you are not getting what you should get". It would have a very small dilutive effect on Swiss Life's 1999 earnings and would increase funds under management to SFr140bn.

The sale is the latest sign of the way large Japanese banks are being forced by their financial problems to retrench.

Separately, Asahi, another large bank, yesterday also announced it was scaling back its operations in Europe. This withdrawal has emerged partly because the big banks are now scrambling to raise capital by selling assets ahead of the financial year-end to enable them write off their bad loans. At the same time, the Japanese government is encouraging a number of banks to review their overseas operations, ahead of a planned injection of public funds into their capital bases in March.

Sumitomo is considered one of the healthiest of the Japanese banks. However, it is attempting to trim its operations in Europe and the US, to develop a more streamlined and focused business, officials say.

Storebrand and Skandia in non-life link

By Nicholas George in Stockholm and Valeria Skold in Oslo

Consolidation in the European insurance industry took another step forward yesterday when Skandia of Sweden and Storebrand of Norway announced that they planned to merge their non-life operations and said they were looking for further partners in the Nordic region.

The newly formed company will be listed in Stockholm and Oslo in "a couple of years", by which time it is planned that a Finnish and Danish non-life insurer will have joined the venture.

The merger has been prompted by low growth in the non-life insurance sector and a belief by Skandia and Storebrand that to achieve critical mass in the Nordic region a non-life insurance company must have market share of well over 20 per cent.

Based on 1998 figures the merged company, which has yet to be named, will have a total premium income of SKr22.9bn ($2.85bn), 4m customers and 19 per cent of the Nordic non-life market.

The merged company aims to make annual cost savings of SKr450m over the next three years although neither Skandia nor Storebrand would specify restructuring costs or the number of jobs that will be lost.

Both companies will have a 50 per cent voting stake in the new company with ownership split 56 per cent to 44 per cent in Skandia's favour. The headquarters will be in Stockholm.

Skandia's and Storebrand's life and savings operations are not included in the deal and the companies will continue to compete in this sector.

Analysts said the most likely candidates to join the new alliance are Pohjola in Finland and Codan in Denmark. Skandia already holds 32.5 per cent of the votes and 28.6 per cent of the capital in Pohjola. The Finnish group yesterday welcomed the merger but added that its priorities were to pursue its own restructuring.

"Finnish and Danish partners are our foremost priority," said Age Korsvold, chairman designate of the new company and Storebrand's chief executive.

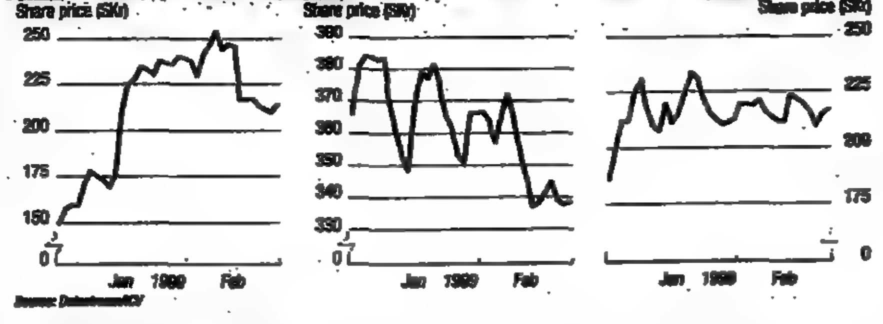
Mr Korsvold also said he did not rule out forming an alliance with the non-life operations of Swedish insurer Trygg-Hansa, which SEB, the Swedish bank that owns Trygg-Hansa, has said it wants to sell.

Warburg Dillon Read were lead advisers to Storebrand and D. Carnegie to Skandia.

Observer, Page 15

Volvo backs off pursuit of Scania

The two truck groups have reached a stand off over price, writes **Tim Burt**



Sweden's "battle of the juggernauts" entered a new phase yesterday when Volvo staged a tactical retreat in its pursuit of Scania, one of Europe's largest heavy truck manufacturers. A frustrated Volvo *admitted it had failed to persuade* Investor, Scania's controlling shareholder and the main vehicle of Sweden's Wallenberg empire, to sell its stake after several weeks of argument over Scania's true worth.

"It is very simple," said one person close to the talks. "Volvo was not willing to pay what Investor was asking; and the Wallenbergs would not sell at the level Volvo was prepared to offer."

Volvo – which last month agreed to sell its car division to Ford of the US for SKr50bn ($6.2bn) – is understood to have offered SKr270-SKr280 a share for Scania, valuing the heavy truck company at SKr54bn-SKr56bn. But Investor claimed the group was really *worth SKr350-Skr375 a share*, or SKr70bn-SKr75bn.

Given that Scania shares were trading between SKr170-SKr180 before Volvo acquired a 13 per cent stake last month, Investor's price tag looked hopelessly optimistic. The market seemed to agree, yesterday marking Scania shares down by more than 5 per cent to SKr208 – valuing the company at about SKr40bn.

But this has never been a straightforward case of bid and counter bid, where the two sides eventually compromise at an agreed price. The battle for Scania is about much more than that, and it is far from over.

Volvo yesterday appeared to acknowledge, in a carefully-worded statement, that the phoney war might continue. Leif Johansson, Volvo chief executive, said the company would not sell its stake in Scania and held out the prospect of future technical co-operation between the two companies.

And the prospect of Volvo remaining a sleeping shareholder in Scania – retaining a blocking position against any counter offer – could force Investor back to the negotiating table.

But the Wallenberg company does not appear to be in any hurry. It emphasised yesterday that it was continuing to explore options for Scania "that could be even more interesting" than an outright sale to Volvo.

Volkswagen of Germany, *for example, has been touted* as a possible partner for Scania. Ferdinand Piëch, VW chairman, has made no secret of his determination to expand in trucks and has previously discussed a joint venture in medium-sized trucks with Leif Ostling, chief executive of Scania.

But that came to nothing, and there is no sign yet that VW – or any other bidder – will meet Investor's price expectations for Scania.

Valuations aside, the battle over Scania raises difficult strategic questions for both Volvo and Investor. The Wallenberg holding company is likely to face criticism from its own shareholders and those of Scania over why it would not sell at SKr270-SKr290 a share.

The investment company could certainly make use of the cash, which *would ease a debt burden* that doubled last year to about SKr16bn. It would also help Investor to fund increased holdings in Swiss-Swedish engineering group ABB and AstraZeneca, the drugs company created by the merger of Sweden's Astra and Zeneca of the UK.

For Volvo, failure to secure Scania could be even more pressing. Following Ford's bid for the car division, Volvo is under intense pressure to recycle a cash pile estimated at SKr60bn-SKr70bn.

A share redemption would not be a worthy use for those resources, particularly in a country where such tactics are not tax efficient.

Of the alternative bid targets in the truck industry, Volvo has already made overtures to Navistar, the US truck and bus manufacturer, which could lead to a takeover. *But such an acquisition would still not represent the sort of transforming* deal that Mr Johansson is looking for in commercial vehicles.

In the absence of a significant deal, Volvo stripped of its car division and laden with cash would become a very tempting target itself. Fiat of Italy has already registered its interest, leading to a "concrete" offer last month of $13bn-$14bn for the whole group. The Italian company was yesterday said to be "monitoring the situation" very carefully, although its original offer was not treated seriously by Volvo. Both Investor and Volvo, therefore, could be forced back into each other's arms by outside pressures.

At Investor, that pressure could come from disgruntled shareholders and balance sheet weakness. Volvo, meanwhile, might be willing to pay over the odds for Scania to safeguard its own independence. In that scenario, any fresh negotiations will come back to price.

"If both sides agree that an independent future for Scania is not really an option then the dance will begin again," said one person involved in the discussions. "For the moment, Volvo has just decided to catch its breath."

Alliance talk lifts Alitalia and Air France

By David Owen in Paris, James Blitz in Rome and Michael Skapinker in London

Shares in Air France and Alitalia soared yesterday amid indications the two airlines had held talks on the creation of an international alliance with other carriers that could become one of the three biggest in the world.

The French carrier's shares yesterday closed up 15 *per cent at €16.10 on* heavy volume as it made its debut on the Paris Bourse. Alitalia shares rose 12 per cent.

The Air France offering, which has put a minority of the company's capital in private hands, is the first significant privatisation transaction of 1999.

The Italian national carrier indicated it had been holding high level talks with Air France and KLM Royal Dutch Airlines of Holland about the possibility of forging an alliance that would also include Continental and Northwest Airlines of the US and Air China.

Alitalia confirmed it had recently held talks with the airlines concerned and that "these contacts are part of normal talks between airlines". Individuals close to the company indicated that recent talks had touched on a possible "mega-alliance".

Air France, which has already indicated that 1999 would be the year in which it decides which of its two US partners – Continental and Delta Air Lines – it is to join in a new global airline alliance, said no decision had yet been taken. It said it was "in discussions with the two groups and that means by extension with their allies".

The alliance between Continental, Northwest, KLM and Alitalia, which is expected to be called Wings, is keen to attract Air France. Wings would compete strongly with the Star Alliance, headed by Lufthansa of Germany and United Airlines of the US, and with Oneworld, headed by British Airways and American Airlines.

A decision by Air France to align itself with Wings would be a serious blow to Delta. The US carrier has a tie-up with Swissair, Austrian Airlines and Sabena of Belgium but has had difficulty extending its alliance to other partners.

Jean-Cyril Spinetta, the Air France chairman, has said that the choice between Continental and Delta would hinge on market access, economic factors and a more subjective judgment on the partner he believes the company will work with.

The French company has established code-sharing agreements with more than 20 airlines worldwide, but is not yet in any global partnership.

Yesterday's developments came just over a year after Alitalia chose KLM as its European partner in spite of pressure from the French government for it to team up with Air France.

TELECOMMUNICATIONS OLIVETTI EYES UP TELECOM ITALIA

Bonanza for advisers

By Clay Harris in London and Paul Betts in Milan

A speculative call in early November opened the door to Olivetti's L102,000bn ($58.4bn) proposed takeover bid for Telecom Italia.

Donaldson, Lufkin & Jenrette, the US investment bank, asked Silvio Scaglia, chief executive of Omnitel, Olivetti's cellular telephone offshoot, if he thought Telecom Italia might be susceptible to a bid by a US telecoms group such as the soon-to-merge SBC Communications/Ameritech.

Only a day later, *Mr Scaglia* was back with an unexpected answer: Olivetti itself might want to make such a bid. Little time was lost before Roberto Colannino, Olivetti's chief executive, went to New York to discuss the project with senior executives at *DLJ*.

Before the end of November, agreement was reached to pursue the plan, with a significant role to be played by Lehman Brothers, Olivetti's long-standing advisers in the Italian market.

For both banks, second-*tier players in the global* mergers and acquisitions market, the deal is a blow to the dominance of the US trio of Merrill Lynch, Morgan Stanley and Goldman Sachs, although two of them also have a role to play.

As well as DLJ and Lehman, the bidder's team includes Chase Manhattan, a long-standing banker to Olivetti, and Mediobanca, chosen for its Italian merger and acquisition expertise and *connections to the Telecom* Italia board. Mediobanca will also handle the Italian bank debt and rights offering. The four banks have put aside normal rivalries to share equally the advisory and financing mandates.

The battle promises to be a bonanza for advisers on the other side as well. Telecom Italia is advised by Credit Suisse First Boston and Instituto Mobiliare Italiano, both of which are shareholders, as well as J.P. Morgan and Lazard Brothers.

Franco Bernabe, Telecom Italia's chief executive, has yet to disclose his defence strategy. He is waiting for the verdict of Consob, the Italian stock market watchdog, on the bid's validity.

Telecom Italia argues that Olivetti's offer does not constitute a *formal bid*, which would prevent it from taking defensive steps and introducing poison pills under Italy's new takeover rules. Olivetti says its announcement of an *intention to bid does constitute* an offer. Consob has 15 days to review the issue but is expected to take a decision in the next 24 hours.

Consob is also investigating possible insider trading in Telecom Italia shares and the possible requirement *according to Italy's* new takeover rules for Olivetti to bid also for TIM, the mobile phone company 60 per cent owned by Telecom Italia. This would dramatically increase the costs of Olivetti's bid.

Morgan Stanley Dean Wit*ter is advising the Italian* government, a shareholder in Telecom Italia. Mannesmann, the German diversified telecoms group which would buy Olivetti's stakes in Omnitel and Infostrada, is advised by Merrill Lynch and Deutsche Bank.

BT, C&W rule out 'white knight' role

British Telecommunications and Cable and Wireless, the two largest UK-based telecoms operators, indicated they had no interest in acting as "white knights" for Telecom Italia, **writes Alan Cane**. BT already has a joint venture in Italy, Albacom, in conjunction with Banca Nazionale del Lavoro, Eni and Mediaset. C&W planned a strategic alliance with Telecom Italia last year, but the deal collapsed after the resignation of *TI's former head*.

Courtaulds saps full-year result at Akzo Nobel

By Gordon Cramb in Arnhem

Akzo Nobel, the Dutch chemicals group, said yesterday that Courtaulds, the UK paints and fibres company it bought last year, drained parent profits by Fl 55m (€25m, $28m) in the first six months of ownership.

Making its Fl 6.3bn agreed bid last spring, Akzo said it expected Courtaulds to contribute to profits within the *first full year of ownership.* Cees van Lede, Akzo's chairman, said this had not yet been attained, largely because of an "unexpected decline in the fibres markets".

That held Akzo's full-year increase in net earnings from operations at just 1 per cent, at Fl 1.63bn. For the fourth quarter, profits slipped 14 per cent to Fl 307m.

The Dutch group made no forecast, saying market uncertainties were too great. In the current six months, however, it would be "very difficult to match" the first half of last year, when profits reached Fl 893m.

Akzo consolidated Courtaulds from last July, and said in October it had made a "slightly negative" contribution during its maiden three months. The subsequent downturn mainly affected textile fibres, in which the British group was more active than its new parent.

Akzo blamed price competition in textiles from Asian producers. Industrial fibre segments did better. The two fibres divisions were melded from last month into Acordis, which Akzo is to spin off to shareholders later this year. Fibres accounted for Fl 4.29bn of Akzo's Fl 27.51bn sales last year.

The Fl 55m Courtaulds loss included charges for financing the acquisition. Interest cover came down to six times earnings from nine times, which Mr van Lede said had been "perhaps a bit too healthy". After a spike in debt to Fl 10.6bn from Fl 3bn, he added that the group should shortly be able to bring down its gearing.

A dividend of Fl 2.15 per share is being paid from earnings per share of Fl 5.71, against Fl 5.66 last time.

Capital expenditure rose by 49 per cent at coatings and 62 per cent at pharmaceuticals. Research and development outlays are being maintained for 1999 at Fl 1.4bn, of which the drugs side gets half.

NEWS DIGEST

SPANISH BANKING

Investment banking chief Botín quits merged BSCH

The first serious clash in the planned $35bn merger between Spain's Banco Santander and Banco Central Hispano came yesterday with the surprise resignation of Ana Patricia Botín after being named to head the joint unit's investment banking side. Ms Botín, who quit all her executive functions as head of wholesale banking at Banco Santander, is the 38-year-old eldest daughter of Emilio Botín, Santander chairman. She played a big part in the bank's forceful investment drive in Latin America.

The bank would not comment on the reasons for her resignation, apart from saying she would take on "new professional initiatives". She remained on the board, it added. The resignation followed a Sunday newspaper magazine profile identifying her as "the most powerful woman in Spain" and tipping her to succeed her father at the merged BSCH group. It is believed Ms Botín tried to have publication delayed to avoid upsetting the delicate balance of power in the new group. Under the merger terms, due for approval by shareholders next month, the 64-year-old Mr Botín becomes joint chairman alongside his BCH counterpart, José Marí Amusátegui, and then sole chairman from 2002. The merger, announced last month, was negotiated in secret by the two chairmen and their executive vice-chairmen. Ms Botín, like other top executives in both banks, was informed of the plan only hours before it was made public. Her move could spell the end of dynastic leadership at Santander, where her grandfather and great-grandfather were also chairmen. The Botín family officially controls about 5 per cent of Banco Santander. This will be diluted to about 3 per cent in the new BSCH.
David White, Madrid

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FRENCH BANKING

SocGen profits rise 15%

Société Générale, the French bank, said yesterday it would take a €398m ($441.6m) after-tax restructuring charge if its €15bn agreed bid for Paribas succeeds. The results of the share exchange will be known on March 18. If more than 50 per cent of existing Paribas shares are submitted to the offer, Paribas will take an identical charge. The banks estimate the total charge at €1bn before taxes.

SocGen reported a 15 per cent rise in 1998 net profits to €1.07bn. Daniel Bouton, chairman, said this result was "achieved in spite of the very high cost of the international crises". The bank made a €550m provision for its exposure to Asian emerging markets, with another €292m to cover its "entire Russian risk".

Losses related to emerging markets activities were more than offset by the strong performance of the domestic branch network, which contributed €738m to net profits, up from €590m in 1997. Loans grew 6.3 per cent and deposits by 7.9 per cent. Profits from overseas retail banking rose 23 per cent to €92m, while commercial and investment banking showed a net loss of €17m, against a €150m profit, owing to volatile market conditions in bond trading, over-the-counter derivatives and emerging market debt. Some 100 jobs are to be cut in these activities.
Samer Iskandar, Paris

FOOD PRODUCTS

Raisio hit by Benecol delay

Raisio, the Finnish developers of Benecol, the world's first cholesterol-cutting margarine, has warned that the delayed US launch of the product could adversely affect results. The company, announcing a sharp increase in full-year profits, said its rapid growth came to a halt in 1998. "Postponement of the introduction of Benecol spreads in the US will cause an equivalent delay in Benecol returns," said Tor Bergman, deputy chief executive. Raisio announced pre-tax profits up from FM118m to FM232m in 1998, achieved on flat sales of FM4.95bn, compared with FM5.1bn last time. Of that profit, the largest proportion was derived from the Benecol division, which saw its contributions jump from FM24.5m to FM185.9m.

Raisio's shares have fallen sharply in recent months following the decision by the US Food and Drug Administration to treat Benecol as a food ingredient than a dietary supplement. In addition to delaying the US launch, that move was interpreted by some analysts as reducing Benecol's sales potential in North America. Nevertheless, earnings per share rose from FM0.83 to FM0.93 last year and the group proposed a modestly increased dividend – up from FM0.30 to FM0.35. **Tim Burt, Stockholm**

Skoda chief removed as creditors lose patience

By Robert Anderson in Prague

Lubomir Soudek, the Czech Republic's most prominent industrialist, was yesterday removed as chairman and chief executive of Skoda Plzen, the country's biggest engineering company, after its creditors lost patience with the slow progress of its restructuring.

The recall of Mr Soudek is likely to lead to an acceleration of disposals from among the over-stretched conglomerate's nearly 40 subsidiaries. It could also pave the *way for the entry of foreign* strategic partners into some of its seven divisions.

The dismissal follows the removal this month of another top industrialist who built an empire on debt – Vaclav Junek, president of the chemical conglomerate Chemapol – and demonstrates industry's problems in the current recession and the assertiveness of the country's troubled banks as they prepare for privatisation.

Mr Soudek has been replaced as chief executive by Jiri Hlavica, a former manager at the Czech operations of ABB, the Swedish-Swiss engineering company, who was made Skoda Plzen's deputy chief executive in December.

Mr Soudek led Skoda Plzen with an iron hand since 1992 when he was appointed to rescue the company by its main creditors and shareholders – Komercni Banka and Investicnia Postovni Banka (IPB) – who also helped him acquire a stake of around 25 per cent.

Mr Soudek increased turnover through an export drive but was slow to reduce costs or focus on core activities.

He embarked on a debt-leveraged acquisition programme that left it exposed when interest rates soared in 1997 and the economy slid towards recession. In 1997 Skoda Plzen made a Kc3.8bn ($111m) loss on stagnant sales of Kc23.4bn, while its shares over the last year have fallen from Kc482 to less than Kc140.

This third successive loss pushed the banks to take over the supervisory board *last August and demand* disposals to repay the group's interest-bearing debts, estimated at Kc10bn.

Several plants were sold but Mr Soudek is believed to have resisted further disposals, leading the supervisory board to dismiss him.

"Mr Soudek had long enough to convince the owners that he is doing a good job," Komercni said.

Analysts believe the banks will now push through further disposals but it remains unclear what shape the remaining group will have. "The question now is what is to be defined as Skoda's core business," said Ondrej Datka of Patria Finance.

Storebrand and Skandia in non-life link

NEWS DIGEST

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FRENCH BANKING

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FOOD PRODUCTS

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NEWS DIGEST

METALS INDUSTRY

Losses at LG Metals deepen to 782bn won

South Korea's LG Metals yesterday posted a record net loss of Won 782.58bn won ($650m) in 1998, after losing a net Won 147.29bn a year ago. "The loss in 1998 was due mainly to higher interest payments on our debts under the country's financial crisis early last year," the company said.

Slackening local copper demand and foreign exchange losses as a result of the crisis also worsened the group's business environment last year, together with weakening global copper prices, it said. But it declined to comment on reports that it lost a large amount of money trading in metal futures and options on the London Metal Exchange. It has in the past denied those reports.

LG Metals' sales rose to Won 2,290bn in 1998, from Won 2,020bn in 1997, it said. LG Metals was set to be merged with another LG Group subsidiary, LG Industrial Systems, by April 1 to restructure its poor financial condition, it said. The LG Group is seeking foreign investors to buy some of LG Metals' assets or a majority stake in the company.
Reuters, Seoul

Comalco ahead 7% for year

Comalco, the Australian aluminium producer, said yesterday that rapid diversification of its traditional Asian markets to more robust markets in western Europe and the US helped boost net profit by 7 per cent to A$236m (US$150.6m) in the year to December. Comalco, which is majority owned by Rio Tinto, the Anglo-Australian mining company, operates two aluminium smelters in Australia and one in New Zealand. **Gwen Robinson, Sydney**

JAPANESE BANKING

Sanwa buys stake in broker

Sanwa, one of Japan's largest banks, yesterday announced plans to take a 30 per cent stake in Universal Securities, a medium sized broker. Sanwa said it would buy the shares from Daiwa Securities, reducing Daiwa's stake in Universal to about 8 per cent. Sanwa did not reveal the purchase price, but the shares are believed to be worth about Y6bn at yesterday's closing share price of Y219. **Gillian Tett, Tokyo**

MANUFACTURING

Komatsu warns of loss

Komatsu, the Japanese machinery manufacturer, yesterday issued a profits warning, lowering its earnings forecast for the year ending March 31 1999. The company said it expected to post a pre-tax loss of Y8bn ($66.4m) against previously estimated profit of Y12bn, and last year's result of Y40.25bn. Net losses would be Y13bn, against its previous forecast of a Y1bn profit and last year's net profit of Y19bn. Komatsu's shares closed up Y1 at Y576.

■ Toray Industries, a leading manufacturer of synthetic fibres, revised down its pre-tax profit forecasts 23 per cent from Y48bn to Y37bn ($307m) for the year to end-March. The group lowered estimated net profit by 54.5 per cent, from Y11bn to Y5bn. Based on revised estimates, net income for the year would fall 79 per cent from last year's level of Y24.7bn. Toray shares closed up 3.3 per cent, or Y17, at Y532. **Alexandra Nusbaum, Tokyo**

NEW ZEALAND

Contact Energy sale confirmed

New Zealand's government confirmed yesterday that it was proceeding with the sale of Contact Energy, which on some estimates is valued at about NZ$2.6bn (US$1.41bn). Tony Ryall, minister for State Owned Enterprises, said yesterday it would be the biggest government asset ever to be floated directly on the share market.

Mr Ryall said the identity of the successful bidder for a 40 per cent "cornerstone" shareholding would be announced after March 15, with the associated float to the public of the remaining 60 per cent stake beginning in April.

■ Brierley Investments yesterday announced it was selling its 68.6 per cent shareholding in Auckland casino Sky City in a further move to reduce its debt. Based on yesterday's prices for Sky City shares, Brierley Investments would make about NZ$450m from the sale of its 63.1m shares through two issues of instalment receipts.
Terry Hall, Wellington

RESTRUCTURING DEAL WITH HSBC HOLDINGS HELPS GOVERNMENT TO MEET TERMS OF IMF RESCUE PACKAGE

South Korea sells 70% stake in Seoulbank

By John Burton and Peter Montagnon in Seoul

South Korea took a further step in the restructuring of its troubled banking sector yesterday, when HSBC Holdings signed a memorandum of understanding to acquire a 70 per cent stake in Seoulbank for about $700m.

Seoulbank, nationalised in late 1997 to prevent its collapse under bad corporate loans, is the second Korean bank to be sold by the state to foreign investors, as demanded by the International Monetary Fund under a $58bn rescue package.

In December, a consortium of US short-term financial investors, led by Newbridge Capital, agreed to acquire 51 per cent of Korea First Bank.

HSBC's management of Seoulbank "will be a benchmark for our banks" by improving competitiveness, said Lee Hun-jai, the chairman of Korea's Financial Supervisory Commission, which is supervising bank restructuring.

HSBC, which is registered in the UK and runs a global banking empire, said it was attracted by the universal bank profile of Seoulbank, which would give it access to a customer base of up to four million people.

Derek Wilson, head of Korea equity sales for ING Barings, said: "This is a strong positive signal for foreign investors because it shows the government is serious about financial reform."

Talks between HSBC and the government had earlier been stymied by HSBC's demand for a 70 per cent stake in Seoulbank, which Seoul rejected on the grounds it would prevent the government from obtaining a significant portion of profits if the bank were restored to financial health.

Under a compromise agreement, the state will keep a 30 per cent stake in Seoulbank and receive additional warrants equivalent to 19 per cent of the bank's outstanding shares.

HSBC will be able to acquire 100 per cent of Seoulbank after four years by buying the government's stake, Mr Lee said. The government will not exercise any management control in the meantime.

HSBC is likely to keep long-term control of Seoulbank – unlike Newbridge's ownership of Korea First, which is expected to be relinquished after a few years.

The government agreed to assume Seoulbank's existing bad loans and acquire any more discovered over the next year. It will also be responsible for non-performing loans to the top five conglomerates over the next two years, according to Mr Lee.

The FSC expects the sale of both Seoulbank and Korea First to be finalised by the end of May once due diligence is completed.

GE Capital creates a stir becoming big in Japan

The US group is taking advantage of economic problems to make a series of acquisitions, writes **Gillian Tett**

When GE Capital first crept into Japan in 1994, the financial world barely blinked. The US group started by taking the unusual step of buying two tiny Japanese companies but deliberately kept the deals extremely discreet.

Five years later, however, GE Capital is attracting a blitz of attention and controversy. For in the past year the company has done something that was once considered almost unimaginable for a western group – it has made a series of high profile, large acquisitions in Japan.

With Japan's economic problems forcing the government to accept the need for restructuring, GE Capital believes the time is right to step up its merger and acquisitions programme.

"The turmoil in the financial market has created a situation where the Japanese authorities and companies themselves have decided that they need to take different tactics to stabilise their financial system," explains Denis Nayden, GE Capital president. "With these changes we have been allowed to take 100 per cent ownership – that has not always been the case in the past, so this is a big shift."

GE Capital has responded to this shift by developing a two-pronged strategy. First, it has deliberately targeted distressed companies for its purchases, in an effort to procure a low price and win government support.

Second, and most important, it has tried to structure its purchases to ensure that it controls the good assets of the failed company – but is shielded from the bad liabilities through a "ring-fencing" system.

In its Toho Mutual deal last year GE Capital did not attempt to purchase the old company, but siphoned Toho Mutual's "new" business into a completely separate unit.

This is tactfully labelled a "joint venture", but it is controlled by GE Capital. And with Japan Leasing, GE Capital has refused to accept any liabilities outside the company's immediate leasing business.

Whether this strategy will allow GE Capital to extract rapid profits from its purchased companies is still unclear. Though the US company believes it should derive value by using its access to cheap capital and a tight management style, it has refused to reveal any business results from its deals.

But the really crucial issue for the rest of the industry is whether the ring-fence structure will work. GE Capital insists that it is watertight from a legal perspective. It also argues that such ring-fencing makes sense for Japan.

"If you look back to what the US government did with its savings and loans crisis, they insulated the liabilities of the old (banks) and sold the good assets," Mr Nayden says.

"This [system] is effective in attracting new capital – there is no rationale for new investors to assume the existing financial problems."

Such logic has also already triggered some copy-cat deals. Manulife, the Canadian group, for example, is using a similar structure to buy the healthy assets of Daihyaku, another Japanese life assurance company.

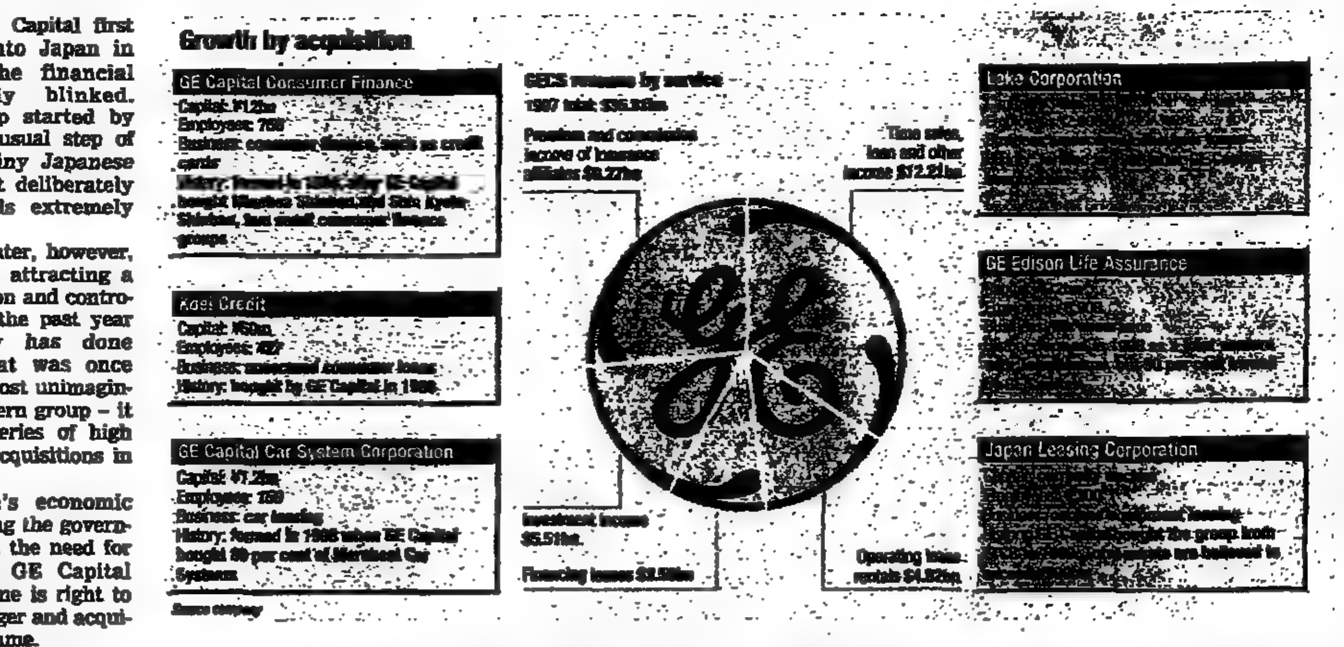
Nevertheless, some western lawyers question whether this ring-fence would withstand political pressure if a crisis emerged.

There are fears, for example, that the Japanese Life Assurance Association might try to force GE Capital to rescue Toho if it collapses.

As one western investment banker says: "The danger is that one of these life companies goes bust, the ring-fence holds, and the Japanese public starts blaming foreigners for little old ladies losing their money."

Thus far, there is no indication that this type of crisis will occur. And GE Capital is actively looking for additional acquisitions in Japan, particularly in the consumer finance business.

But with other western companies now also considering making acquisitions in Japan, the fate of the ring-fence structure could prove critical for confidence among international investors. Either way, GE Capital will not easily be able to evade the limelight again in Japan.



Obstacle to TPI debt deal removed

By Ted Bardacke in Bangkok

Completion of a $3.2bn debt restructuring deal for Thai Petrochemical Industry (TPI) – south-east Asia's single largest bad debtor – appears imminent with the International Finance Corporation agreeing to drop its opposition to the deal, TPI said yesterday.

A deal between TPI and its 148 creditors would have a substantial impact on the balance sheets of some big Thai banks, particularly Bangkok Bank, whose credits to TPI are non-performing and would be reclassified as performing within three months of a final debt deal.

It would also end a bitter dispute between the company and the IFC, the private sector lending arm of the World Bank, that controls $500m of TPI's credits, its single largest financial commitment.

TPI stopped paying interest and principal on loans in the summer of 1997, soon after the devaluation of the Thai baht.

More than a year later, the company convinced 72 per cent of its creditors – but not the 75 per cent needed under Thai law – to accept a debt restructuring deal that would see 30 per cent of the company given to creditors in exchange for accrued interest. They also accepted its promise to raise $600m in new capital and an agreement to turn over 75 per cent of the company to creditors in the event that the company was unable to meet its new obligations.

But the IFC and some other official creditors, notably the US Exim Bank, wanted the deal to include a condition whereby 15 per cent of the creditors could put the company into default.

This would give IFC a near-unilateral right to declare a default and change the company's management.

However, TPI said the threshold should be 25 per cent and announced it would start unilaterally paying interest back to those banks that supported the company's proposal.

It said there was some give-and-take on the default threshold issue, with the IFC and US Exim Bank agreeing to support the overall plan, which had been supported by the Thai government.

The new conditions will be re-submitted to all creditors for approval in the coming weeks.

TPI shares rose 10 per cent yesterday on the news.

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Seiyu to sell shares to offset Y88bn charge

By Alexandra Nusbaum in Tokyo

Seiyu, the Japanese supermarkets operator, yesterday announced it would sell shares in Ryohin Keikaku, the retail company that owns the "Muji" stores, to offset a Y88bn ($730m) charge to restructure troubled subsidiaries.

Seiyu said it would book the restructuring loss, of which Y27bn would be used to write off bad debts at Tokyo City Finance, its commercial credit and leasing subsidiary.

Tokyo City Finance had accumulated as much as Y240bn in bad debt during the bubble period, according to Michael Allen, analyst at ING Barings, who welcomed the announcement.

"This is a discretionary write-off, not a business loss. The company could have sold more shares, but chose not to. It's good that they are not flooding the market with assets," he said.

Seiyu said it would sell 2.25m shares, or 16 per cent of its stake in Ryohin Keikaku, for a Y30.72bn profit tomorrow.

Seiyu's stake in Ryohin Keikaku will decrease to 20 per cent.

The market reacted positively to the announcement. Shares in Seiyu, which has a market capitalisation of Y92bn, climbed 5.4 per cent, or Y21, to Y410.

Ryohin Keikaku, with a market capitalisation of Y217.6bn, rose 6.9 per cent, or Y1,000, to Y15,500.

"The market is interested in companies that are restructuring," said Mr Allen. "And Seiyu announced cost cuts and is changing its business model and upper management. It has changed its focus to concentrate on the core retail business."

Pre-tax profit of Y10bn would be higher than the previous estimate of Y9.8bn which was a 73 per cent jump from the previous year, according to Masahiro Matsuoka, analyst at Warburg Dillon Read.

The company said it would post an extraordinary profit of Y64.5bn from sales of securities. Nevertheless, it would book a net loss of Y14bn at the parent level for the year ending February 1999, down from its previous net profit forecast of Y1.7bn.

Tokio Marine turns the table on insurance rivals

By Naoko Nakamae in Tokyo

What do you do when you come up against new competitors slashing prices in your newly deregulated market? If you are Tokio Marine and Fire, Japan's largest casualty and property insurer, you launch a product that is 20 per cent more expensive.

This unusual strategy has met with remarkable success, surprising even Tokio Marine itself.

Deregulation of Japan's insurance industries has been at the centre of a war of words in recent weeks. The climax came when Japanese officials refused to meet US Trade Representative Richard Fisher last month, to discuss insurance.

"The Japanese government takes the position that the issue has already been settled," said Koji Tanami, vice finance minister. Mr Fisher said: "We're very disappointed."

But deregulation in Japan's Y3,700bn ($30.7bn) car insurance market has gone further than in most insurance sectors. In September 1997, rules were relaxed to allow companies to offer risk-differentiated car insurance policies, and the door was opened to discounted products.

In Japan's mature car insurance sector, this has left the large domestic non-life insurance companies defending their share of the market. But Tokio Marine has countered the influx of discounted car insurance products with a comprehensive product focused on meeting a broad range of customer requirements. Another feature of the product, launched last October, is that it has a personal injury element – the first in Japan.

For the enhanced service and physical injury features, customers pay 20 per cent more than Tokio Marine's average car insurance product. Nevertheless, sales of Tokio Automobile Policy (TAP) exceeded 260,000 in its first three months of business, enabling Tokio Marine to increase its share of the market and winning the company an award for best new product of the year.

"To be honest, we've been taken aback at how well it's done," said the company.

Some industry insiders point out that a majority of sales were made to Tokio Marine customers renewing expired policies. "They're preaching to the converted," one said.

However, Tokio Marine has consolidated its position as market leader, with some 20 per cent of the motor insurance market. Its strategy seems sensible, given the structure of the domestic insurance companies with their wide but cost-heavy network of agencies selling the products.

Other domestic non-life insurers are now following in Tokio Marine's footsteps – Yasuda Fire and Marine, the second largest company, has launched "Car Owner's Insurance", while Mitsui Marine has "Pro Guard".

New entrants from overseas directly marketing their products are also happy with progress. The incomers have included American Home Direct, part of the AIG Group, and Zurich Insurance. Last December, Royal Direct, of the Royal & Sun-Alliance Group, was launched in Japan.

These companies are discounting products by as much as 40 per cent compared with average policies. Besides promoting lower prices, they are advertising other strengths such as product innovation.

Lee Mooney, general manager at Royal Direct in Tokyo, said his company would be focusing not only on price but on quality and reliability. "In the Japanese market, the good-risk customers want reassurance, not just discounts," he said.

He praised Tokio Marine's strategy. "They're doing exactly the right thing. The worst thing the domestic insurers could do is compete on discounts, as they don't have the flexibility in the level of expenses to do so. I respect Tokio Marine for choosing to compete on its strength, which is service."

n Seoulbank

n Japan

Obstacle to TPI debt deal removed

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PRIVATE SECTOR COMPANIES FORCED TO REPAY FOREIGN DEBT AS LENDERS BECOME MORE NERVOUS

Banks refuse to renew loans to Brazil

By John Barham in São Paulo

Some of Brazil's biggest private sector banks and companies are having to pay billions of dollars in foreign debt because the international banks that arranged the loans, mostly eurobonds, during Brazil's boom years of the mid-1990s are refusing to renew the loans.

Banks say the risk of continued lending to Brazil has increased dramatically since the Real collapsed in January and have refused to roll over loans to Brazilian-owned companies.

An estimated US$3.84bn in medium and long-term loans and interest fall due in March and April. Many borrowers had assumed that Brazil's good name in world financial markets would remain unchanged for years.

Now, says Celina Vansetti, vice-president of Moody's, the rating agency: "It is very unlikely that Brazilian borrowers can access the markets in a reasonable way, even in the next six months."

They had to repay about US$875m in January and US$1.85bn in February. Meanwhile, domestic markets are sinking into severe recession and Brazilian interest rates are among the highest in the world.

Big locally-owned conglomerates suffered badly in other emerging markets crises because they were heavily indebted. Brazilian companies are particularly exposed because half their debts maturing in 1999 are due by April. But Daniel Aráujo, director at Standard & Poor's São Paulo office, said: "I have not detected any specific trouble for companies [due to] the concentration of maturities.

"Brazilian companies have relatively few debts and are often exporters giving them access to sufficient hard currency to service their debt. Furthermore, most of them began hedging their hard currency liabilities last year."

However, Brazilian banks, which issued most of the eurobonds, would be hit hard by a rescheduling of government debt. Government paper makes up the largest item in most banks' balance sheets and rating agencies say there is a one-in-three risk of a rescheduling.

Mr Aráujo also warned of a "snowball effect" on local capital markets as companies replace cheaper dollar loans with expensive short-term local currency loans. Benchmark interest rates are 39 per cent.

Silvio Frugoli, at Unibanco, Brazil's third biggest bank, said there was a silver lining for local lenders. He said foreign-owned banks in Brazil had curtailed lending even to their best multinational clients, allowing local banks to step in. He said: "With the crisis you can deepen relationships and increase the quality of the loan portfolio. We have not always had the volume [of multinational business] we wanted."

Steelmaker plans to buy back $530m of euro notes

CSN, one of Brazil's biggest steel companies, has formally announced it will buy back $530m of its outstanding euro notes at a 30 per cent discount to their face value, **writes John Barham.**

Although the notes are not due until 2007 and CSN had net debts last September of R$2.2bn (then equivalent to US$1.82bn), analysts have said the operation still makes excellent business sense.

André Paes, senior analyst at BBA Capital, a São Paulo asset management company, said CSN "is delaying investments because of the crisis. So why borrow if it is not going to invest? No-one wants [CSN to be] a bank. This is positive for the company and good for bond holders."

CSN says the buy-back should yield an annual return equivalent to 15.75 per cent in dollar terms.

Many Brazilian companies have bought back their debt on international markets, particularly after discounts widened following last year's Russian default. CSN, advised by Nations Banc Montgomery Securities, has now made a public offer to repurchase the euro notes, offering a 30 per cent discount if the notes are sold by the end of this week. The discount rises slightly for holders selling by March 15, when the offer closes.

On-line site seeks retail links

By Andrew Edgecliffe-Johnson in New York

Monster.com, the on-line recruitment company owned by TMP Worldwide, the telephone directory advertising group, is seeking alliances allowing it to connect its site with those of other internet retailers.

The site, currently used by more than 5m people a month, could be connected to the career books section of an on-line bookseller such as Amazon.com, or offer advice on casual dress in the workplace by linking with a clothing retailer such as Gap.

James Treacy, chief operating officer of TMP, said Monster.com would investigate such alliances this year. He added that the company could spend up to $150m on acquisitions without needing new banking agreements, but would probably spend $20m-$25m in 1999.

Although 88 per cent of the group's sales come from the more mature Yellow Pages advertising market, TMP's stock has shared in the enthusiasm surrounding internet stocks. At $49⅞, it is below its peak of $60 a share, but double its level of a year ago. Some analysts say it may ultimately be a takeover target for larger internet groups such as Yahoo!, America Online or Microsoft.

TMP gives no financial details for Monster.com, but its interactive division reported an operating profit of $200,000 and revenues of $31.7m in the first nine months of 1998. Analysts forecast interactive revenues of $75m-$78m for the full year in 1999.

Monster.com benefited this month from a television advertising campaign during the Super Bowl game.

Four times as many job-seekers used the site in the 24 hours after the game as the daily average during the previous two weeks.

Levi struggles to shake off the blues

By Andrew Edgecliffe-Johnson

Up against it: Bob Haas, chairman and chief executive of Levi Strauss, which is struggling with falling sales AP

A four-storey billboard two blocks from New York's Times Square proclaims: "Everyone has something to hide." Underneath, in smaller type, are the words: "What's true. Levi's."

The painful truth for Levi Strauss, which America's largest branded clothing maker could not hide yesterday, is that consumers have turned away from its once-ubiquitous blue jeans.

Despite its decision to take the knife to excess manufacturing capacity last year, its sales and market share have been dropping, and another painful restructuring is now on the cards.

Another of the company's advertising campaigns speaks volumes about its problems. "Tommy wore them. Calvin wore them," goes the slogan. For consumers have not stopped wearing jeans – they have simply switched their allegiance to higher fashion brands such as Tommy Hilfiger and Calvin Klein.

Last year, the US jeans market grew by 3 per cent. That growth rate is pedestrian against the 6-8 per cent advances of previous years, but does not account for all of Levi's troubles.

The company, which never gives details of its profits, saw a 13 per cent drop in sales last year, despite a "solid" performance from its two non-jeans divisions: Dockers khakis and Slates dress trousers.

Bob Haas, chief executive, admitted yesterday that Levi may have taken its eye off the consumer, after about a decade of strong jeans sales. "We need to refocus our energies on the consumer and the marketplace," he said.

He added that the unfavourable changes in Levi's marketplace had been compounded by its own structural problems. "We are probably the last major US apparel manufacturer to still have a substantial amount of production in-house."

That, he said, has given a competitive advantage to rivals which moved production to cheaper overseas economies faster.

Levi has already made moves in this direction, shifting from 90 per cent in-house to 30 per cent in the past 10 years. After the plant closures announced yesterday, it will make just 30 per cent of its own goods, with the balance outsourced to contract manufacturers.

Most of these contractors will be in North and South America, despite the popular perception that Asia has become the obvious source for textile contractors.

"Apparel is a little like fruit and vegetables," Mr Haas said. "You don't want to have yesterday's fashion poking its way across the Pacific in a container when the retailers are screaming for new stock."

Eager to head off any accusations of using sweatshop labour, he added: "We were the first company to develop a code of conduct for external sourcing, and we monitor compliance very strenuously." The group is also taking elaborate and costly steps to ensure "sensitive, respectful and compassionate" treatment of the staff being made redundant.

Cutting costs and ensuring more flexible production is only part of the challenge facing Levi. A more demanding customer base, with faster-changing tastes, will require changes in the product offering and a step-up in marketing activity.

Levi has broadened its range in the past 10 years. Now, Mr Haas said, it will put more emphasis on developing sub-brands such as its L2 and Silver Tab ranges. It will also spend more on micro-marketing, using film and event sponsorship to "do whatever it takes to surround a target consumer".

The Haas family does not, however, see the latest setback as a reason to raise capital by taking the company public again. Mr Haas, who took part in the two-stage leveraged buy-outs of 1985 and 1996 explained: "At a time like this, where a company is being challenged in the marketplace and we have to undergo some substantial restructuring, that is best accomplished as a private company."

Despite the billboard, he says this is not because the family has anything to hide: "We can focus on the long term to an extent a public company cannot; we can accomplish the necessary corrections such as we are going through; and we can adhere to our values."

DIESEL ENGINES *US COMPANY TO DISTRIBUTE PERKINS UNITS*

Caterpillar in plan for global sales boost

By Peter Marsh

Caterpillar, the world's biggest maker of construction machines, is planning a big boost in its worldwide sales of diesel engines, based partly on developments at its UK-based Perkins subsidiary, purchased just over a year ago for $1.3bn.

The US company is planning to sell engines devised by Perkins worth up to $400m a year through its main worldwide distribution channels, and is considering a venture in a new family of diesels for light trucks using a combination of ideas from Perkins and its US-based engine development staff.

Caterpillar, with sales of $21bn last year, is best known for its earth-moving equipment but is also one of the world's leading suppliers of diesels, both for powering its own machines and for selling to outside customers.

Last year, Caterpillar's engine sales totalled $7.8bn – $1.3bn sold internally and $6.5bn for use by other companies – in a range of machines such as tractors, excavators and power-generating equipment.

In a further sign of Caterpillar's interest in expanding its engines business, it has agreed with Emerson Electric, the US motors and controls supplier, to take over majority control of FG Wilson, the Northern Ireland-based specialist in diesel-powered electricity generating equipment.

Wilson, with annual sales of some $500m, is one of the world's biggest makers of these systems, used in developing countries for primary power supplies, and also in the industrialised world as a back-up to electricity from national grids. Emerson had previously held 51 per cent of the stake, with the rest owned by Caterpillar.

Richard Thompson, Caterpillar president in charge of its engines division, said he planned to double the company's total engine sales by 2005. A large part of this would come from capitalising on the link with Perkins, which had "significant growth opportunities", according to Mr Thompson.

Perkins, based in Peterborough, is among the world's biggest makers of small diesel engines – one of its main competitors is Cummins Engine of the US. Perkins employs 4,000 in the UK, out of 4,500 worldwide.

Caterpillar's purchase of the company from LucasVarity, the automotive parts supplier, was seen as an important strategic move.

Mr Thompson said he hoped Perkins' annual sales of just above $1bn could rise to $2bn over the next few years. This year, Caterpillar is to begin selling under its own name a series of about 12 Perkins-designed engines, using its own distribution agents. Sales of such engines could total $200m-$400m a year within five years, Mr Thompson said.

Caterpillar is also feeding some of Perkins' ideas in low-pollution engine technology to its US-based engine development centres, in a move which should help to push up the group's total engine sales in the next decade.

Michael Baunton, president of Perkins, who had the same job when it was part of LucasVarity, said Caterpillar was keen to preserve Perkins' identity, while pooling technical resources when appropriate.

He said that for most of the time Perkins' employees viewed Caterpillar as a customer "just like anyone else".

NEWS DIGEST

UTILITIES

Dominion Resources to buy Consolidated Natural Gas

Dominion Resources is to buy Consolidated Natural Gas for $6.3bn in stock, to create the fourth biggest US utility, with operations focused in the east. Dominion, based in Richmond, Virginia, will acquire nearly 2m Consolidated customers in Ohio, Pennsylvania, Virginia and West Virginia. The combined company will have about $8.8bn in annual revenues and serve nearly 4m retail customers in five eastern states, including North Carolina.

The acquisition agreement calls for Consolidated shareholders to each receive 1.52 Dominion shares. Dominion shares fell $1.625 to $40.69 while Consolidated fell 50 cents to $56.

Dominion expects "revenue enhancements and cost savings" of $150m-$200m a year by 2002.

Consolidated shareholders will own about 43 per cent of the combined company, to be known as Dominion Resources. **Reuters, New York**

ENERGY

Sempra Energy eyes KN

Sempra Energy, formed last year from the union of two big California utilities, yesterday announced plans to buy KN Energy, the natural gas company, for $1.8bn in cash and stock. The transaction brings together Sempra, with $10bn in assets and operations, with KN, the nation's second-largest gas pipeline and storage operator and sixth-largest integrated natural gas company. The capitalisation of the combined company will be about $14.3bn ($7.1bn in market value of equity and $7.2bn in debt). Based on 1998 results, the combined company would have revenues of approximately $9.9bn, combined assets of more than $20bn and more than 15,000 employees.

Under the terms of the agreement, Sempra will acquire all of the shares of KN for a fixed exchange ratio of 1.115 shares of Sempra Energy common stock, or $25.00 in cash, for each share of KN Energy common stock. Sempra said this represented a blended premium of 24 per cent to the market price of KN Energy common stock, based on the average closing prices of both companies' common stock over the past week. **Reuters, New York**

AEROSPACE COMPONENTS

United to acquire Sundstrand

United Technologies, a leading US maker of jet engines and aerospace components, has agreed to acquire Sundstrand, the aerospace components supplier, for about $4.3bn in a deal that creates one of the world's biggest suppliers of value-added airframe components and subsystems.

United said yesterday the purchase price would be paid 50 per cent in cash and 50 per cent in stock, adding that the deal valued Sundstrand at $70 a share, $11½ above the stock's closing price on the New York Stock Exchange on Friday. United plans to combine Sundstrand with its Hamilton Standard division, maker of the Nasa space suit, and rename the division Hamilton Sundstrand. "Our management teams expect to realise cost reduction benefits of 3 per cent to 5 per cent of the Hamilton Sundstrand combined $3bn cost basis within the next three years," Mr Kuriak said. United had 1998 revenues of $25.7bn, up 6 per cent from 1997, and net income of $1.26bn, up 17 per cent. **Reuters, Hartford, Connecticut**

CABLE TELEVISION

One-off gains lift Comcast

Comcast, the fourth-largest US cable television operator, yesterday reported a fourth-quarter profit of $414.2m, reversing a year-earlier loss due to several unusual gains. Earnings amounted to $1.04 a share, compared with a loss of $88.4m, or 25 cents, in the year-ago period. Revenues rose 13 per cent, to $1.45bn from $1.28bn a year earlier. Operating cash flow, a common measure of the financial health of cable companies, increased 15 per cent to $421.3m from $366.9m.

However, excluding several one-time gains, Comcast said it lost 47 cents a share. The gains were from the restructuring of wireless phone carrier Sprint PCS, which changed the way Comcast accounts for its loss-producing investment in the Sprint-controlled venture, and the sale of Comcast UK Cable Partners to NTL. **Reuters, New York**

Guardian iT directors' sales to net £7.2m

By Caroline Daniel

Directors of Guardian iT are to sell up to 1.25m shares to realise about £7.2m ($11.7m) after the computer disaster recovery services provider unveiled a record 64 per cent jump in pre-tax profits during its maiden year on the main market.

The move is the latest in a series of share sales by executives of IT companies keen to take advantage of the market's enthusiasm for their stock.

Venture capitalists and other senior managers will also sell more than 6m shares, bringing the total placing to 15 per cent of the company.

In January, Hilary Cropper, chief executive of FI Group, the computer services company, raised close to £6.5m from selling shares. In February, Kevin Lomax, chairman of Misys, the computer software and services group, raised just under £1m from share sales. Analysts did not think the sales suggested the market for IT stocks had peaked. "There is a demand for IT stocks," said Patrick Yau, technology analyst at Nomura. "People are looking for value, especially in the raft of mid cap stocks." Another welcomed the new liquidity in IT stocks and said that he was not surprised to see early investors cashing in because most of their money was tied up in their businesses.

News that directors were selling chunks of stock caused an initial wobble in Guardian iT's share price which hit a day low of 530p. The shares recovered to close down 2½p at 572½p. The shares were floated last March at 255p.

Warburg Dillon Read expects to complete the placing by Friday. Peter MacLean, chief executive, will sell 680,000 shares, worth £3.9m on today's closing price. Peter Jakob, finance director, will sell 230,000 shares and Richard Raworth, non-executive chairman, 350,000 shares.

Other senior managers are selling 0.95m shares. The original venture capital shareholders, including ECI, will sell up to 5.3m shares. After the sale management will retain a 12 per cent stake.

Analysts were bullish about Guardian iT's prospects. The company, which specialises in disaster recovery services such as backing up and storing data for clients, has experienced solid growth since a management buy-out from ICL in 1995. Pre-tax profit rose 64 per cent to £6.6m (£4m) on sales up 29 per cent to £29.7m for 1998.

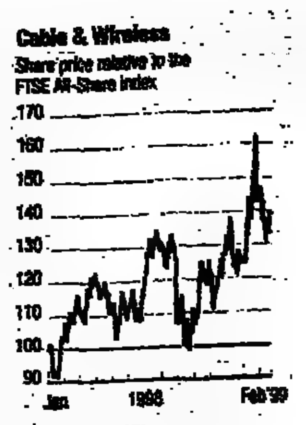
Growth was bolstered by increased moves by City firms to ensure their business continuity work and by the development of a new London disaster recovery centre. Guardian iT has already signed 3 large new contracts, including one with Warburg Dillon Read.

The company also benefited from the year 2000 related work. But the biggest benefit was indirect. "What the millennium bug has done is bring to the forefront of manager's minds their dependency on IT" said Mr MacLean.

COMMENT

C&W

These are scary times to be lacking leadership in the telecommunications industry. As Telecom Italia has discovered to its dismay, revolving doors in the boardroom have a nasty habit of letting in predators. The speed of Graham Wallace's appointment to Cable and Wireless's top job is no coincidence. The charismatic Richard Brown's departure to EDS had left C&W obviously exposed. Against the UK market, C&W may have looked a star, outperforming by 26 per cent since the start of 1997. But its 32 per cent underperformance of British Telecommunications, with which it discussed a merger not so long ago, reveals cracks beneath the make-up. For all Mr Brown's furious deal-making, C&W still faces the familiar strategic questions of how to gain an entrée into China and of how best to forge its global strategy. As a C&W insider, Mr Wallace is a safe, possibly dull, pair of hands, who at least will limit the investment banking fees. But if he succeeds in his aims of achieving greater focus on the fast-growing internet and data services market and in cementing C&W's ties to China, shareholders can hardly complain at his appointment.



Nomura

Nomura's snappy exit from its investment in William Hill has added to the mystique surrounding Guy Hands, who runs the Japanese bank's UK principal finance unit. It was typical of the unit's aggressive style that, having failed to obtain an adequate price for the bookmaker in a flotation, it switched horses at the last moment, selling Hill to two venture capital buyers. The result: an extra £45m in the bank. This sort of entrepreneurial fizz has allowed Mr Hands to retain the faith of the unit's struggling Japanese parent. Given the startling returns the unit claims to have generated – about £1bn on a total of £500m invested since foundation in 1994 – that is unsurprising. But it remains hard to understand the secret of Mr Hands' success. If Nomura can be this profitable a private equity investor, where is the competition? In the past, Nomura had a real advantage in being the first corporate investor to discover the asset securitisation. But it has not securitised a deal since October 1996, and that market is now both more crowded and more difficult. Mr Hands will find it hard to repeat his exceptional returns.

HSBC's new guiding light aims to outshine peer group

Global bank has set itself a minimum objective of doubling shareholder returns over five years, writes **George Graham**

John Bond, chairman of HSBC, showed a new openness with investors yesterday when he unveiled a five-year strategic plan backed by performance targets.

Sir William Purves, chairman from 1986 until his retirement last year, had been more inclined to let the market take the banks' strategy and aims on trust.

But with a new management team in charge, HSBC, which ranks among the few genuinely global financial services companies, has begun to share more of its objectives with shareholders.

The overall aim is to beat the average total shareholder returns of a peer group of nine leading international financial institutions – rivals such as Citigroup – with a minimum objective of doubling shareholder returns over five years.

Mr Bond aims to get there by developing wealth management services in its main markets, increasing its business with middle-market companies, establishing HSBC as the group's global brand, and tightening its internal capital management techniques.

At the same time HSBC, which has always seen the most exciting opportunities in the faster-growing emerging markets of Asia and Latin America, now aims for a balance between these volatile areas and the slow but steady countries of the Organisation for Economic Co-operation and Development.

"No other organisation derives half its profits from the more stable countries of the OECD area and half from the faster-growing but more volatile emerging markets. HSBC will preserve this balance as a truly global organisation," Mr Bond said.

In 1998, the balance tilted in favour of the old world. Europe accounted for 44 per cent of profits, and North America another 15 per cent, while Hong Kong slipped to 37 per cent and the rest of the Asia-Pacific region to a mere 1 per cent.

The result was a 19 per cent drop in pre-tax profits to $6.57bn (£4.03bn). Operating profits before provisions rose 6 per cent to $9.05bn, while the charge for bad and doubtful debts rose from $1.01bn in 1997 to $2.84bn, an increase that had been largely expected by analysts in the light of the economic turmoil that has swept HSBC's core markets in Asia.

Midland Bank, the group's UK subsidiary, turned in an apparently flat performance, with pre-tax profits of £1.52bn, down from 1997's £1.54bn. The results were, however, affected by poor dealing profits from the group's European treasury operations.

Comparisons were skewed by the transfer within the group of the Trinkaus bank in Germany and by an exceptional gain in 1997 on the sale of a Latin American debt portfolio. On an underlying basis Midland advanced 22 per cent.

Pre-tax profits on investment banking slipped slightly from $397m to $381m, with private banking accounting for the largest share.

HSBC Americas, the principal subsidiary of which is the New York regional bank Marine Midland, reported a 15 per cent gain to $766m before tax, benefiting from a tax settlement with the US Internal Revenue Service. Hongkong Bank of Canada produced net income of C$182m (£75m) for the 14 months to December 31, an annualised increase of 13 per cent.

Against that, heavy bad-debt charges cut profits at Hongkong and Shanghai Banking Corporation, the group's main Hong Kong subsidiary, by 42 per cent to HK$16.5bn (£1.31bn). The newly acquired Latin American businesses produced an increased contribution of $147m, despite a loss at HSBC Roberts in Argentina.

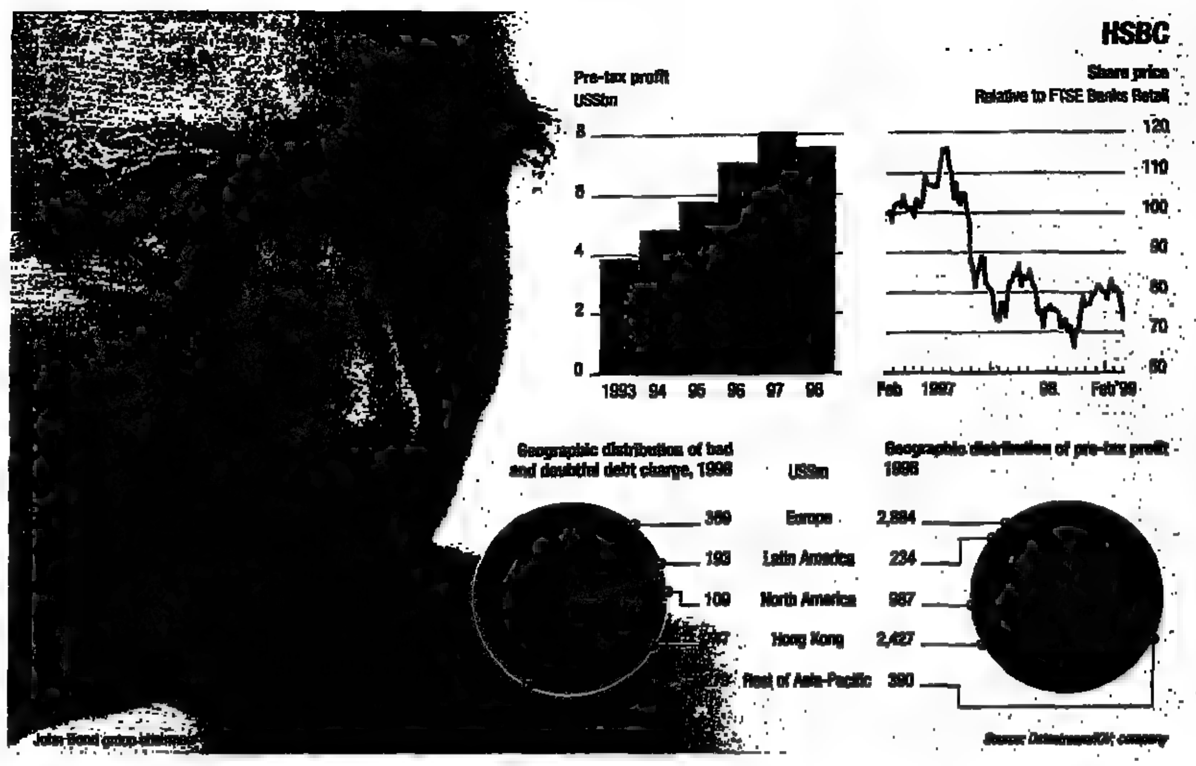
With the announcement yesterday that it was paying a total of $900m for a 70 per cent stake in South Korea's Seoulbank, HSBC clearly signalled that it has not turned its back on Asia. Indeed, the bank is widely expected to make further acquisitions in countries such as Thailand.

Mr Bond says that while HSBC was generating a return on equity of 15.5 per cent, it remained hard to find transactions in Europe which did not dilute shareholder returns.

"The question we continually face is, do you want to buy into an emerging country at close to net asset value or do you want to pay four or five times book value in an OECD country?"

At a group level, total operating income rose 8 per cent to $20.1bn, while operating expenses rose 8 per cent to $11bn – though this included $180m towards the costs of its planned move into a vast new group headquarters in London's Canary Wharf, some of it for buying itself out of old leases.

A second interim dividend of 85 cents makes a total for 1998 of 92.5 cents a share, on headline earnings per share down 22 per cent to $1.60.



Diageo in $186m sale of whiskies

By John Willman, Consumer Industries Editor

Diageo, the world's largest drinks group, has taken the first step in disposing of its underperforming spirit brands with the sale of eight Canadian whiskies to Canandaigua, the US drinks producer and distributor.

The price of $185.5m (£113.8m) includes production facilities in Quebec and Alberta, whisky stocks, distribution agreements for several Diageo drinks and the fourth best-selling Canadian whisky, Black Velvet.

With sales of $74m in the year to June 30 and earnings before interest and taxation of $34.6m, the price is a lower multiple than Diageo secured when it sold Dewar's scotch and Bombay Sapphire gin to Bacardi-Martini for £1.1bn last year. But unlike those two premium brands, standard Canadian whisky is a rapidly shrinking category: sales were down 4.8 per cent a year in the US between 1992 and 1997.

"They've done a great deal to get out of a terrible category," said Mark Puleikis, drinks analyst at Merrill Lynch.

The disposal, which is subject to regulatory approval, is part of Diageo's strategy of focusing on premium spirit brands with international sales. It will retain Gibson's, a premium Canadian whisky, a category growing at 7 per cent a year.

Other disposals are expected to follow, with bourbon, dark rum and US brandy among the drinks seen as non-core by Diageo. The sale will dilute earnings by less than 0.5 per cent next year.

For Canandaigua, the acquisition is the latest in a series which has made it the world's tenth largest drinks company by volume, selling 11.5m nine-litre cases. It is the second-largest distributor in the US, with Paul Masson, Inglenook and Almaden; and second-largest beer importer, distributing Corona, brewed by Mexico's Modelo, Peroni from Italy and Tetley from the UK.

When it bought Matthew Clark, the UK cider brewer and drink distributor, last year for £215m, it said it wanted to add European spirit brands to its US portfolio which includes Barton vodka and other low-priced brands.

Bad debts cast a long shadow over Asian arms

By Louise Lucas in Hong Kong

Weak economies and rising bad debts in home markets took their toll on HSBC Holdings' Asian arms, with both the Hang Seng Bank, its Hong Kong subsidiary, and Hongkong Bank, the Asian arm of HSBC, reporting significantly lower post-tax profits.

Post-tax profits at Hang Seng Bank, of which HSBC indirectly holds 62.14 per cent, fell by more than a quarter from HK$9.36bn to HK$6.79bn ($879m) in 1998, at the lower end of expectations.

Provisions increased fourfold, and corporate banking turned in an unprecedented loss. The bank made provisions for bad and doubtful debts of HK$2.48bn, up from HK$635m in 1997.

As a result, the ratio of total provisions to gross advances rose from 1.3 per cent in 1997 to 2.2 per cent.

Hongkong Bank turned in lower net profits than Europe for the first time in the Hong Kong-based banking group's history.

Provisions for bad and doubtful debts almost tripled, from HK$4.55bn to HK$12.53bn. Net profits fell 42 per cent to HK$10.78bn.

"Almost every economy in which we operate experienced difficult conditions," said David Eldon, Hongkong Bank chairman.

"Although we have maintained our policy of standing by our customers in bad times as well as good, reduced economic activity has resulted in a contraction of demand for corporate lending throughout the Asia Pacific region, he added.

Hong Kong, the bank's biggest market, slid sharply into recession last year, triggering a rise in bankruptcies, mortgage defaults and other loans. The most high-profile of these came from across the border, but both HSBC's Asian arms have been relatively cautious lenders to China.

Mainland entities accounted for 2.5 per cent of Hongkong Bank's total advances and 5 per cent of those at Hang Seng Bank.

Zotefoams sets sights on US

By Michelle Joubert

A fall in demand from the toy industry, its main customer, held back 1998 profits at Zotefoams, the synthetic foam manufacturer.

But although pre-tax profits were static at £8m ($13m), the shares jumped 7 per cent to 93½p following upbeat comments from the company. It said it was introducing new technology, had cut its exposure to toys and planned to increase market share in the US.

Zotefoams manufactures lightweight, waterproof polyethylene block foams that are strengthened by creating molecular links by adding peroxide to the manufacturing process. The group says new machinery would be used to produce foam lighter than that of competitors, giving it a competitive advantage.

"This year we will increase production in the US, where Zotefoams has only 15 per cent of the market," said David Stirling, finance director.

"There is less room for expansion elsewhere; we have 80 per cent of the UK market and 60 per cent in Europe," he added.

Bill Fairservice, chairman, said good progress had been made from an expanded sales base in the US. A site for a new factory had been identified in Cincinnati. Production should begin in 2001.

Analysts said pre-tax profit would fall slightly this year, but forecast improved earnings in the economic upturn expected in 2000.

Mr Fairservice said last year's efforts had been "firmly focused on product development". Despite the uncertain economic climate he was "confident that this will leave us well positioned when the general economic environment improves," he said.

Turnover fell from £24.4m to £24.2m.

RESULTS

	Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
BGR Φ ...... Yr to Oct 31☆	15.4	(13.4)	2.07	(1.93)	9.2	(9.7)	2.3●	Apr 20	-	-	-
Bowness Leisure Φ ...... Yr to Oct 31	2.11	(2.45)	0.277	(0.326)	23.2	(28.3)	9	Jul 1	7.5	9	7.5
Community Hosp ...... 6 mths to Dec 31	54.5	(33.3)	7.11♠	(6.05)	13.7†	(11.9)	[illegible]	May 7	4.4	-	13
Guardian IT ...... Yr to Dec 31	29.7	(23)	6.63	(4.03)	9.1†	(5.9)	1	Apr 27	-	1.5	-
Hibernian ...... Yr to Dec 31	353.5■	(315.4■)	56.7	(43.2)	85	(61.9)	10.4‡	Mar 26	8.7	15	12.2
HSBC $ ...... Yr to Dec 31	-	(-)	6,571	(8,130)	1.61	(2.06)	0.555‡	Apr 28	0.49‡	0.925	0.83
Systems Int Φ ...... 6 mths to Dec 31☆	8.46	(5.89)	1.08	(0.91)	2.21	(1.78)	0.1	Apr 7	-	-	-
Ulster TV ...... Yr to Dec 31	37.2	(34.8)	12.5♥	(8.27)	18.09	(10.9)	3.5	Apr 28§§	3.2	6.3	5.7
Ultra Electronics ...... Yr to Dec 30	158.8	(143.4)	21.1	(18.1)	22.5	(20.3)	5.4	Apr 28	4.8	8.1	7.2
Zotefoams ...... Yr to Dec 31☆	24.2	(24.4)	8.03♥	(7.96)	15.6	(15.7)	4.8	Apr 23	4.5	7.2	6.7

Investment Trusts	NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Edinburgh Java ...... Yr to Dec 31	7.69	(11.34)	0.073L	(0.084L)	0.24L	(0.28L)	nil	-	nil	nil	nil
Fleming American ...... Yr to Dec 31	692	(605.8)	3.15	(2.9)	4.46	(4.13)	2.9	Apr 26	2.68⚹⚹	2.9	2.68⚹⚹
Framlington 1000 ...... 6 mths to Dec 31	159.3	(173.1)	0.934	(0.582)	1.8	(1.29)	-	-	-	-	2.4
Manchester & Lon ...... 6 mths to Jan 31⚹	418.9	(496.6)	0.017	(0.698)	0.15L	(8.01)	0.5	May 6	-	-	-

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ☆Comparatives pro forma. ●Includes special interim. ■Gross written premiums. ‡Second interim. §§Special dividend of 35p also to be paid on Apr 26. ☆Comparatives restated. ⚹⚹Includes foreign income dividend element of 2.42p. $US currency. ⚹Comparatives for six months to July 31.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales

½ hour period ending	Provisional Price for trading on 22.02.99: Pool purchase price £/MWh	Pool Prices for Trading on 20.01.99: Pool purchase price £/MWh	Pool selling price £/MWh	TS use of system price £/MWh
0030	24.74	26.68	26.95	0.89
0100	24.74	26.68	26.95	0.89
0130	24.74	26.68	26.95	0.89
0200	24.74	26.68	26.95	0.89
0230	24.74	26.68	26.95	0.89
0300	33.11	33.44	33.71	0.89
0330	[illegible]	[illegible]	33.71	0.89
0400	24.74	27.50	27.77	0.89
0430	24.74	27.50	27.77	0.89
0500	24.74	27.50	27.77	0.89
0530	18.62	17.00	[illegible]	0.00
0600	18.62	17.00	[illegible]	0.00
0630	[illegible]	23.22	23.49	0.89
0700	[illegible]	23.22	23.49	0.89
0730	20.00	52.62	52.89	0.89
0800	20.00	52.62	52.90	0.89
0830	41.50	99.69	99.96	0.89
0900	53.33	99.69	99.97	0.89
0930	53.33	41.87	42.15	0.89
1000	53.33	42.27	42.55	0.89
1030	[illegible]	42.27	42.55	0.89
1100	47.80	41.88	42.17	0.89
1130	53.33	60.54	60.82	0.89
1200	53.40	60.55	60.83	0.89
1230	63.39	82.93	83.21	0.89
1300	63.39	82.92	83.20	0.89
1330	63.39	52.63	52.91	0.89
1400	36.08	41.87	42.15	0.89
1430	41.50	[illegible]	42.15	0.89
1500	52.77	41.88	42.16	0.89
1530	36.06	41.89	42.17	0.89
1600	36.06	42.38	42.70	0.89
1630	36.06	47.08	47.77	0.89
1700	47.98	66.08	68.32	0.89
1730	48.23	77.92	80.67	[illegible]
1800	59.07	77.96	80.17	0.89
1830	64.20	70.64	72.01	0.89
1900	64.14	67.90	68.37	0.89
1930	63.94	[illegible]	45.46	0.89
2000	57.81	99.74	100.03	0.89
2030	54.12	[illegible]	102.80	0.89
2100	53.33	99.68	99.96	0.89
2130	53.32	52.62	52.89	0.89
2200	31.69	52.62	52.89	0.89
2230	26.07	25.89	26.16	0.89
2300	26.07	21.14	21.41	0.89
2330	26.07	21.14	21.41	0.89
2400	9.29	21.14	21.41	0.89

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £19.80/MWh becomes 1.980p/KWh. [illegible] The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction [illegible]
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EURO PRICES

EQUITIES

Bright telecoms lead broad market gains

EUROPEAN OVERVIEW

By Vincent Boland

European markets closed well ahead yesterday as investors delighted in the unfolding tussle by Olivetti for control of Telecom Italia. Not for the first time this year, telecoms stocks were the star performers, helping all markets post good gains.

As doubts grew about whether Olivetti had the capacity to take over its much bigger target, other telecoms companies were being touted as potential white knights for beleaguered Telecom Italia, sparking much of the activity in the sector.

The buoyant mood was confirmed in afternoon trading when the Dow Jones Industrial Average posted good early gains as blue chips and technology stocks rallied. The euro, meanwhile, hit another low against the US dollar, which also rose sharply against the yen after the weekend's Group of Seven summit.

The FTSE Eurotop 300 index of leading European shares rose 17.03 points to 1,221.53 and the FTSE Eurotop 100 index rose 42.85 to 2,808.90. The FTSE Ebloc 100 index of shares in euro-zone companies rose 17.83 to 1,007.52.

Telecom Italia, widely regarded as one of the most undervalued of the big European telecoms groups, soared 80 cents to €9.86 on the back of the hostile bid. Olivetti, however, fell 20 cents to €3.

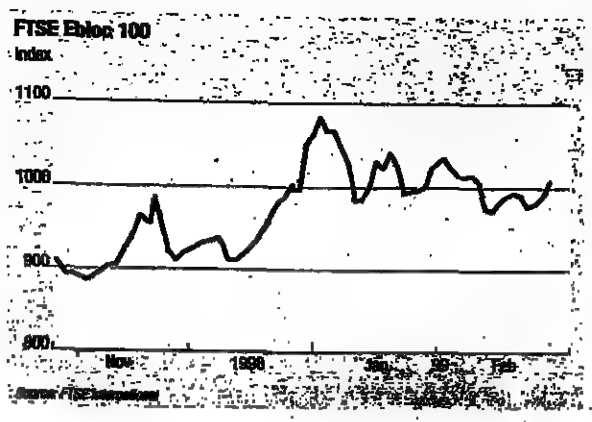
While there was much comment on how the latter intends to finance the acquisition – through a mix of debt, equity and bonds – there was also talk of a counterbid.

Among the possible suitors were said to be British Telecommunications, which fell 30 cents to €15.63; Deutsche Telekom, 40 cents ahead at €39.50; and France Telecom, 10 cents higher at €88.

Another telecoms group in the news was Mannesmann, which gained €4.10 to €124.70 *after it agreed to buy stakes* in mobile and fixed line operators from Olivetti for over €14bn. Analysts welcomed the move as a big boost to the German company's international strategy.

Elsewhere, banking shares had a mixed day after HSBC Holdings, down 90 cents at €23.76, reported 1998 results at the lower end of market expectations, underlining the difficult trading outlook for the big international financial services groups.

FTSE Ebloc 100



FTSE Actuaries Share Indices — European series

Feb 22

National & Regional Markets	Euro Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Euro) €
FTSE Eurotop 300	1221.53	+1.41	+17.03	2.23	1.33	1259.18
FTSE Eurotop 100	2808.90	+1.55	+42.85	2.28	4.56	1008.55
FTSE Ebloc 100	1007.52	+1.80	+17.83	2.08	0.60	1023.32
FTSE EuroMid	1189.71	+0.53	+6.28	2.79	1.30	[illegible]
FTSE EuroMid Ebloc	1200.89	+0.59	+7.09	[illegible]	1.40	1227.72
FTSE EuroMid Ex UK	1234.28	+0.67	[illegible]	2.17	0.96	1258.12
FTSE Eurotop 300 Regions						
Eurobloc	1261.38	+1.62	+20.14	2.03	1.00	1289.40
UK	1168.84	+0.97	+11.28	2.61	2.33	1229.73
Europe Ex-Eurobloc	1192.09	+1.30	+14.09	2.45	1.67	1236.49
Europe Ex-UK	1252.27	+1.65	+20.27	2.04	0.77	1276.50
FTSE Eurotop Industry Sectors						
RESOURCES	894.71	+1.82	+14.90	3.46	0.94	873.86
Mining	846.66	+1.73	+14.39	4.21	0.00	864.53
Oil & Gas	802.80	+1.82	+14.36	3.43	0.94	823.19
BASIC INDUSTRIES	1060.25	+1.23	+12.85	2.82	0.86	1083.71
Chemicals	810.80	+1.29	+10.28	2.79	0.85	825.76
Construction & Bld Matls	994.19	+2.09	+20.35	2.35	1.13	1004.05
Forestry & Paper	861.64	-1.74	-15.25	4.48	0.00	901.04
GENERAL INDUSTRIALS	1110.07	+0.66	+7.32	2.42	2.39	1145.34
Aerospace & Defence	824.50	+2.08	+16.80	2.03	0.00	835.88
Diversified Industrials	975.75	+0.70	+6.83	2.08	0.00	998.07
Electronic & Elect Equip	998.18	-0.29	-2.88	1.90	5.15	1006.79
Engineering & Machinery	1014.97	+1.57	+15.69	3.82	1.05	1030.71

OTHER INDICES

FTSE EUROTOP 300

CURRENCIES & MONEY

EURO SPOT FORWARD AGAINST THE EURO

BONDS

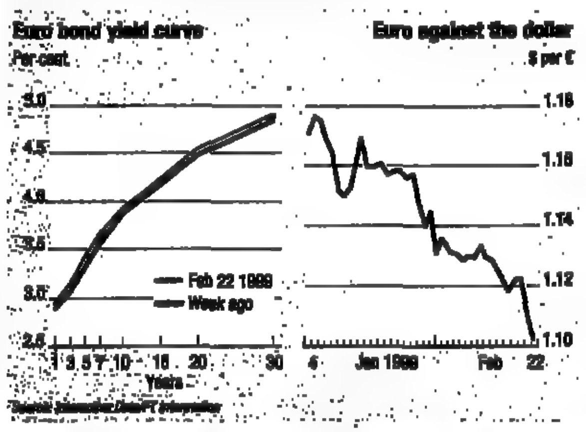
INTEREST RATE SWAPS

Feb 22	Euro-€ Bid	Euro-€ Ask	£ Stlg Bid	£ Stlg Ask	SwFr Bid	SwFr Ask	US $ Bid	US $ Ask	Yen Bid	Yen Ask
1 year	3.04	3.07	5.24	5.27	1.52	1.58	5.23	5.26	0.30	0.33
2 year	3.10	3.14	5.13	5.16	1.74	1.82	5.36	5.39	0.41	0.44
3 year	3.26	3.30	5.14	5.18	1.97	2.05	5.44	5.47	0.65	0.68
4 year	3.43	3.47	5.16	5.20	2.16	2.24	5.51	5.54	0.92	0.95
5 year	3.59	3.63	5.15	5.19	2.34	2.42	5.55	5.58	1.17	1.20
6 year	3.74	3.78	5.14	5.18	2.51	2.59	5.61	5.64	1.41	1.44
7 year	3.88	3.92	5.14	5.18	2.67	2.75	5.65	5.68	1.61	1.64
8 year	4.01	4.05	5.14	5.18	2.83	2.91	5.68	5.71	1.78	1.81
9 year	4.12	4.16	5.14	5.18	2.98	3.06	5.73	5.76	1.93	1.96
10 year	4.21	4.25	5.15	5.19	3.12	3.20	5.77	5.80	2.05	2.08
12 year	4.36	4.40	5.17	5.22	3.35	3.45	5.84	5.87	2.26	2.30
15 year	4.56	4.60	5.18	5.23	3.60	3.70	5.93	5.96	2.52	2.57
20 year	4.77	4.81	5.19	5.25	3.85	3.95	6.01	6.04	2.71	2.76
25 year	4.88	4.92	5.17	5.24	3.96	4.06	6.01	6.04	2.80	2.85
30 year	4.95	4.99	5.16	5.24	4.05	4.15	5.99	6.02	2.86	2.92

Source: Intercapital Brokers Ltd.

Euro bond yield curve — Per cent

Euro against the dollar — $ per €



EURO-ZONE BONDS

CBOT meets on Treasury contracts

By Nikki Tait in Chicago

Directors of the Chicago Board of Trade, the largest futures exchange, were poised to change its flagship US Treasury bond contracts at a special meeting yesterday, *in order to make them* more appropriate in a low interest rate environment.

The proposed change would involve lowering the notional coupon on Treasury bond and note futures to 6 per cent from 8 per cent at present.

It would be the first time the rate had been changed on the contracts, which are among the most actively traded on any futures exchange worldwide.

Supporters of the move, which was first mooted publicly at the beginning of the year, claim it would make the contracts more suitable for hedging activity and boost CBOT volumes. However, *members of the* exchange have expressed some concern over how such a move might work.

The CBOT has suggested that the new rate could be used for contracts dated March 2000 and later, meaning it would need to be implemented *fairly shortly*, before demand for those contracts builds up during the summer and autumn.

However, traders have questioned the extent to which this might affect the December 1999 contracts. Another worry is the coincidence of the coupon changes with other possible system difficulties because of the year 2000 computer issue.

Finally, there is the question of whether the current interest rate climate is a relatively permanent feature, or whether interest rates could rise again if economic conditions change.

While traders warned that the result of discussion among board members could not be assumed in advance, *the feeling* was that changes in some form would be approved. Any adjustment would also need a green light from the Commodity Futures Trading Commission.

The CBOT's plan, however, has already been followed by the electronic Cantor Financial Futures Exchange. The Cantor exchange filed last month *with the Commodity Futures* Trading Commission for permission to trade a "flexible coupon" Treasury futures contract.

Cantor has said that, under the scheme, it would initially list a 6 per cent coupon in addition to the current *8 per cent coupon.*

Like the CBOT, Cantor has argued that the lower coupon would extend the duration of the futures contract and tighten the correlation with underlying cash securities. This in turn would encourage the use of the futures as hedging vehicles.

The Cantor exchange – a joint venture between Cantor Fitzgerald, the US broker-dealer, and the New York Board of Trade – was set up late last year in competition with the CBOT's Treasury complex, but has diverted little business from the larger exchange.

Last year, the volume of Treasury bond futures *traded on the CBOT* rose 12.4 per cent, to just over 112m contracts.

All eyes on Alan Greenspan

BENCHMARK BONDS

By Florian Gimbel in London and John Labate in New York

US and Europe markets drifted in and out of negative territory yesterday, ahead of the Humphrey-Hawkins testimony by Alan Greenspan, chairman of the US Federal Reserve.

European bonds ended marginally *higher as US* Treasuries rebounded from earlier lows. "But trading has been very quiet today. *All eyes are on Greenspan's* testimony [on Tuesday]," said one trader.

By early afternoon the benchmark 30-year bond was $\frac{11}{32}$ higher at 98$\frac{9}{16}$, yielding 5.364 per cent. Among shorter term issues two-year notes had gained $\frac{1}{8}$ to 99$\frac{1}{2}$, yielding 4.926 per cent and 10-year notes were up $\frac{1}{8}$ to 97, yielding 5.040 per cent.

Investor attention is focused on Mr Greenspan's testimony, in which he is expected to summarise the Fed's approach to money and credit growth, and to offer insights into the strength of the US economy.

"Even if the Fed decided to *move to a tightening bias* tomorrow, it would have little effect on Treasuries. The market has already *priced in such a move,*" said Sally Wilkinson, senior economist at Daiwa Europe.

Elsewhere, Japanese government bonds erased most of their earlier gains during the trading day, as the market was wary about the impact of today's 10-year JGB auction.

The Ministry of Finance's commitment to cut back 10-year JGB supply and its intention to make more outright purchases of longer maturity JGBs has been well received by markets, pushing yields lower.

"The bullish sentiment could translate into a successful auction," said Ms *Wilkinson. She added, how*ever, that a poor auction result could cause a temporary setback.

UK gilts had an uneventful day, as investors took a wait-and-see approach ahead of today's testimony by MPC members to the House of Commons and the release of fourth-quarter revised gross domestic figures.

"Both should be good for gilts," said one analyst.

Yesterday's UK data failed to impress investors. "The stronger than expected consumer *confidence figure* [reported by GfK, a polling company] was offset by falling pay settlements [*published by the CBI*]," said Mark Cliffe, at ING Barings.

Mr Cliffe added that there was a wide range of expecta*tions of further interest rate* moves in the market. He thought the Bank of England would soon step up monetary easing, expecting interest rates to fall as low as 4.5 per cent.

The 10-year benchmark gilt future closed 0.30 higher at 117.57. The March 10-year German bund contract rose 0.31 to 115.88.

Euro floaters dominate issuance

NEW ISSUES

By Arkady Ostrovsky

Floating-rate notes in euros dominated the primary market as a lack of arbitrage opportunities continued to *stall corporate fixed-rate* issuance in the currency.

Westpac Banking Corporation, one of Australia's largest banks, made its debut in euros with a €500m five-year floater. Anthony Fane at Paribas, joint lead manager with Warburg Dillon Read, said the aim was to diversify the bank's investor base.

The deal was priced to yield 13 basis points over Euribor and traded at that level, which is the same as Westpac's four-year US dollar floating-rate notes.

Observers said conditions for floating-rate notes were much better than for fixed-rate issues, which are suffering from a lack of arbitrage *opportunities and an under*developed swaps market.

Floating-rate notes appeal mostly to money managers and liquidity managers, while fixed-rate notes attract pension funds and other institutional investors.

Canadian Imperial Bank of Commerce, a rare visitor to the European capital markets, also cashed in on the demand for euro floating-rate paper with a €300m issue of notes that mature in 18 months.

The notes were priced to yield five basis points over Euribor but Mark Wittich at CIBC said a similar dollar transaction would have cost the bank an additional two basis points. He said there was more demand for short-*dated floating-rate notes in* euros than similar paper in dollars.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Polaris CLMT, 99-1(a)	1.5bn		100.00				Lehman Brothers/SG
Nafinsa, Gd Cayman Branch	300	8.750	99.681R	Mar 2002	0.375R	+465(Feb02)	Barclays/Bear Stearns
SG2-Bank(b)	250	(b1)	99.845R	Feb 2004	0.175R		Deutsche/Lehman Brothers
DSL Bank(c)	250	6.125	99.159R	Jan 2004	0.25R	+32(4¼%-04)	Deutsche/Nomura Intl
EUROS							
Westpac Banking Corp	500	(d)	99.742R	Mar 2004	0.15R		Paribas/Warburg DR
CIBC	300	(f)	99.985R	Sep 2000	0.75R		CIBC/Tokyo-Mitsubishi
Nordic Investment Bank(e)	250	4.125	99.833R	Mar 2011	0.35R	+15	SG
Banca Popolare Bergamo(g)	50	(g1)	100.00	Mar 2004	undisc		DG Bank
B Popolare di Brescia(h)	50	(h1)	99.949R	Feb 2002	0.15R		Morgan Stanley DW
AUSTRALIAN DOLLARS							
Export Development Corp	100	5.25	98.85	Mar 2009	2.125		RBC DS Global Markets
CANADIAN DOLLARS							
Toyota Credit Canada	100	5.375	99.20R	Mar 2004	0.25R	+40(5¼%Sep03)	TD Securities
NORWEGIAN KRONER							
Nordic Investment Bank	450	5.00	101.065	Mar 2004	1.875	-	Svenska Handelsbanken

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Commercial Loan Master Trust. 7-tranche asset backed. b) Fungible with $500m. Plus 7 days accrued. b1) 3-mth Libor +12½bp. c) Fungible with $500m. Plus 48 days accrued. d) 3-mth Euribor +6½bp. e) Spread relates to French govt bonds. f) 3-mth Euribor flat. g) Callable on 15/3/01 at par. g1) 3.7% in yrs 1-2, then 4.1%. h) €150m launched 15/2/99 was increased to €200m. h1) 3-mth Euribor +20bp. i) Over interpolated yield. j) Long 1st coupon. s) Short 1st coupon.

NEWS DIGEST

SYNDICATED LOANS

LMA issues guidelines to combat 'front-running'

The Loan Market Association, a trade group representing the loan markets in Europe, has issued guidelines designed to remove the practice of "front-running", which distorts the process of primary syndication. Front-running is where underwriters try to "pre-sell" their commitments in the secondary market before the process of syndication has closed.

Bankers say the practice, which violates market conventions, is unwelcome because it distorts the underwriting risk taken on by banks and could be prejudicial to other participants in the syndication. The LMA fears the syndication process could be undermined, discouraging banks from joining syndications.

European syndicated primary loan market volumes totalled $350bn in 1998. The secondary market has grown quickly over the past three years *but is still less than* 10 per cent of the primary market.

The LMA, whose 100-plus members are mostly banks, says underwriters should sign a pledge not to "front-run". It also says primary activity *should not* be extended unduly, to allow secondary activity to begin as early as possible. "Enough of our members have spoken about this for us to be concerned," said Tim Ritchie, LMA chairman.

The practice emerged last year when some underwriters were laying off risk during the primary syndication process to institutions that would otherwise have joined primary deals. In effect, these institutions were being told: "Don't take the allocation from general syndication, take it from me in secondary," said one banker. The trend is being driven by a primary market where banks are been asked to raise large amounts in an unstable environment.

Khozem Merchant

SINGAPORE BONDS

DBS-linked debut disappoints

Bonds linked to Singapore's Development Bank of Singapore (DBS) made their debut on the Singapore stock exchange yesterday without a trade, *following its* disappointing tender. The zero-coupon bonds, which are convertible into DBS shares after February 2002, were listed under Finlayson Global Corp, which is a branch of Temasek Holdings, the government's investment house. The retail tranche, which had an issue price of S$1 per unit, closed on Friday. Screens indicated yesterday that 50 cents was the bid price for the bond, but no offer price was reported.

DBS is Singapore's biggest bank and also the largest in south-east Asia but investors have only shown limited interest in the issue. The government had wanted to market S$1.3bn in bonds, but settled for just S$765m. Of that amount, S$30m was set aside for local retail investors, who bought only S$13.3m worth.

Sheila McNulty, Kuala Lumpur

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

Feb 22	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	01/01	8.750	108.7833	4.81	-0.04	-0.04	+0.15	-0.24
	08/08	8.750	125.0080	5.36	-0.04	-0.07	+0.28	-0.46
Austria	03/01	5.250	104.2200	3.08	+0.08	-0.03	+0.09	-0.89
	01/08	5.000	107.1900	4.02	-	-0.04	+0.23	-1.02
Belgium	03/01	5.000	103.6200	3.07	+0.15	+0.12	+0.16	-0.96
	03/09	3.750	97.1800	4.10	-	-	+0.24	-0.93
Canada	12/00	5.000	99.9500	5.03	-0.01	+0.03	+0.27	+0.01
	06/08	6.000	106.1800	5.15	-0.01	-	+0.22	-0.27
Denmark	11/00	9.000	108.0700	3.42	-0.04	-0.10	-0.02	-0.88
	11/09	6.000	114.7100	4.28	+0.08	+0.03	+0.26	-1.01
Finland	09/00	4.000	101.2910	2.97	-0.03	-0.03	+0.10	-0.70
	04/09	5.000	107.3480	4.10	+0.01	-	+0.29	-0.87
France	07/00	4.000	101.3900	2.97	-0.06	-0.08	+0.12	-0.97
	04/03	7.250	122.5000	3.62	+0.04	-	+0.34	-1.05
	04/08	4.000	100.2800	3.95	+0.01	-0.01	+0.28	-1.02
	04/29	5.500	110.5100	4.83	-0.01	-0.05	+0.26	-0.71
Germany	05/01	5.000	104.2800	2.98	+0.01	-0.07	+0.08	-0.86
	01/06	6.000	113.5500	3.72	+0.08	+0.01	+0.28	-1.00
	01/09	3.750	98.9000	3.89	-0.02	-0.05	+0.24	-1.06
	07/28	4.750	98.6300	4.82	-0.01	-0.05	+0.24	-0.72
Greece	03/00	8.600	100.1000	9.67	-	+0.26	-0.45	-4.85
	01/09	6.300	102.0000	6.02	-0.18	-0.06	-0.30	-4.78
Ireland	10/01	6.500	108.3900	3.14	-0.03	-0.02	+0.12	-1.62
	08/08	8.000	114.9700	4.05	-0.03	-0.03	+0.23	-1.13
Italy	07/01	4.500	103.0500	3.13	+0.03	-0.01	+0.17	-1.55
	07/03	4.500	104.2100	3.46	-0.01	-0.04	+0.20	-1.41
	05/09	4.500	103.4300	4.08	-0.02	-0.04	+0.22	-1.21
	11/27	6.500	122.4600	5.01	-0.01	-0.04	+0.22	-0.81
Japan	12/00	6.900	111.5250	0.27	-0.03	-0.21	-0.29	-0.43
	12/03	4.100	114.5630	0.99	-0.04	-0.40	-0.25	-0.30
	09/08	1.800	100.5850	1.73	-0.08	-0.29	-0.01	+0.02
	09/18	2.300	94.5380	2.65	-0.02	-0.39	+0.06	+0.12
Netherlands	01/01	5.000	110.7500	3.01	+0.04	+0.02	+0.12	-0.91
	07/09	3.750	98.0800	3.98	-0.01	-0.02	+0.24	-0.94
New Zealand	02/01	8.000	105.6316	4.81	-0.04	-0.10	-0.06	-2.67
	07/09	7.000	110.9507	5.59	-	-0.09	+0.09	-1.29
Norway	05/01	7.000	104.4400	4.65	-	+0.09	-0.02	+0.71
	05/09	5.500	105.9000	4.75	-0.01	+0.01	-0.20	-0.46
Portugal	[illegible]							
Spain	[illegible]							
Sweden	[illegible]							
Switzerland	[illegible]							
UK	[illegible]							
US	[illegible]							

10 YEAR BENCHMARK SPREADS

[illegible]

EMERGING MARKET BONDS

[illegible]

BOND FUTURES AND OPTIONS

France

NOTIONAL EURO BOND FUTURES (MATIF) €100,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	111.15	111.30	+0.16	111.34	111.04	23,472	97,075

[illegible]

US CORPORATE BONDS

Feb 19	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd v Govts
Pac Bell	07/02	7.25	AA-	105.2444	5.51	+0.02	+0.20	+0.51
NY Tel	08/25	7.00	A+	100.2164	6.98	+0.01	+0.17	+1.60

[illegible]

US INTEREST RATES

[illegible]

INTERNATIONAL BONDS

[illegible]

UK BONDS

FTSE Actuaries Government Securities

UK Indices

[illegible]

UK GILTS PRICES

[illegible]

CURRENCIES & MONEY

US Dollar may see end to fireworks

MARKETS REPORT

By Melanie Carroll

The bullish dollar retreated a little yesterday, losing almost two yen during the day after starting out on a 10 week high.

The US currency spent most of the London session above the significant level of Y120 versus the dollar.

The dollar peaked at about Y122 before dropping back to close at Y120.3.

Analysts said profit-taking during the morning pulled the dollar back from its recent high.

Some dealers expect the dollar to continue to rise, but a US correction in the short-term is possible.

A weak but stable yen and euro are considered positive for Europe and Japan.

However, the US does not want the dollar to become too strong.

Alan Greenspan, US Federal Reserve chairman, is expected to be vague about US interest rate cuts in his key speech today, the Humphrey-Hawkins address.

Stephen Lewis, senior economist at Monument Derivatives, said Japanese authorities seemed happy for the yen to remain at Y128 to the dollar in the medium term.

"So (yesterday) afternoon there was a bit of buying back in yen. I think it will stick around the Y120 mark," Mr Lewis said.

Some analysts have expressed fears at the weakening effect the yen's fall has had on other Asian currencies during the last week.

Yesterday, there were significant drops in the Korean won, the Philippine peso, the Singapore and Taiwan dollars and the Thai baht.

However, on what was the first full day's trading in Asia since last Monday because of regional holidays, some traders said the regional drops were due to currency markets getting back up to speed.

Mr Lewis said worries about Asian weakness were partly behind the Japanese desire to keep the yen at about Y120.

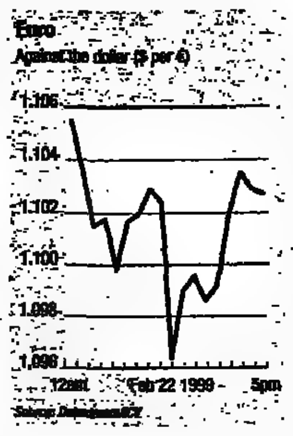
"If the dollar gets up to Y130 or Y140, that would be serious grounds for concern," he said.

■ The euro was left to its own devices after no clear directive was issued from Saturday's G7 summit meeting.

Markets yesterday interpreted the absence of such a statement as acceptance that the euro would be left to fall in the short term, despite its recent weakness.

The euro made up some ground against the dollar, having starting the London session at a new low. It began the London session below $1.09, but climbed back throughout the day to close on $1.103.

Heiner Flassbeck, Germany's deputy finance minister, said yesterday that the falling euro was a normal consequence of low European interest rates and higher US interest rates.



Mr Flassbeck's comments followed weak economic results out of Germany on Friday, another indicator pointing to the poor performance of the European economy that has pressurised the euro.

Meanwhile, Belgian Central Bank governor, Alfons Verplaetse, said the European Central Bank had voted unanimously not to cut interest rates at its meeting last Thursday. Mr Verplaetse said political pressures did not have a bearing on the decision to keep interest rates at 3 per cent.

■ The strong-performing Danish crown remained well supported, finishing only slightly lower at DKr7.434 against the euro versus DKr7.436 previously, despite current account and employment pressures.

The Danish currency is not part of the euro-zone, but it is pegged to the euro in a narrow fluctuation band.

The crown has performed well against the euro since the single currency was launched.

However Denmark's finance ministry released a report, echoing an earlier one from the central bank, warning about the high current account, costing about 2 per cent of gross domestic product to service.

The finance ministry also criticised recent high wage rises.

But it added that low interest rates in Denmark and throughout Europe may go some way to offsetting the potential threats to the currency.

■ POUND IN NEW YORK

Feb 22	—Latest—	— Prev. close —
£ spot	1.6240	1.6225
1 mth	1.6232	1.6217
3 mth	1.6226	1.6220
1 yr	1.6251	1.6232

■ OTHER CURRENCIES

Feb 22	£	$
Czech Rep	55.4347 - 55.5175	34.1680 - 34.2030
Hungary	368.334 - 368.794	227.030 - 227.230
Iran	4862.00 - 4867.20	3000.00 - 3000.05
Kuwait	[illegible]	[illegible]
Peru	5.5235 - 5.5320	3.4045 - 3.4085
Poland	[illegible]	[illegible]
Russia	37.1335 - 37.2516	[illegible]
U.A.E.	[illegible]	[illegible]

POUND SPOT FORWARD AGAINST THE POUND

Feb 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria*	(Sch)	20.2491	+0.0315	327 - 475	20.3180	20.1616	20.2028	2.2	20.1270	2.2	19.817	2.1	102.8
Belgium*	(BFr)	59.3361	+0.0923	143 - 578	59.5920	59.1080	59.2251	2.2	59.0062	2.2	58.0936	2.1	102.4
Denmark	(DKr)	10.9346	+0.0137	285 - 406	10.9795	10.8741	10.9184	1.8	10.8868	1.7	10.7578	1.6	105.7
Finland*	(FM)	8.7456	+0.0136	424 - 488	8.7790	8.7120	8.7292	2.2	8.6969	2.2	8.5627	2.1	81.2
France*	(FFr)	9.6485	+0.0150	450 - 520	9.6852	9.6110	9.6304	2.2	9.5940	2.2	9.4468	2.1	105.8
Germany*	(DM)	2.8769	+0.0045	758 - 779	2.8885	2.8645	2.8716	2.2	2.8609	2.2	2.8168	2.1	103.6

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Feb 22		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	J.P. Morgan Index
Europe													
Austria*	(Sch)	12.4731	+0.0714	708 - 753	12.5424	12.4258	12.4558	1.7	12.4148	1.8	12.2049	2.2	102.6
Belgium*	(BFr)	36.5663	+0.2090	[illegible] - 729	36.7700	36.4280	36.5153	1.7	36.3955	1.9	35.7798	2.2	[illegible]
Denmark	(DKr)	6.7385	+0.0365	[illegible] - 416	6.7750	6.7160	6.7317	1.2	6.715	1.4	6.6255	1.7	105.0
Finland*	(FM)	5.3896	+0.0308	[illegible] - 905	5.4195	5.3691	5.3821	1.7	5.3644	1.8	5.2736	2.2	80.6
France*	(FFr)	5.9460	+0.0340	440 - 470	5.9790	5.9234	5.9377	1.7	5.9182	1.9	5.8181	2.2	105.3
Germany*	(DM)	1.7729	+0.0102	725 - 732	1.7827	1.7661	1.7704	1.7	1.7648	1.8	1.7348	2.2	103.3

WORLD INTEREST RATES

MONEY RATES

INTERNATIONAL CURRENCY RATES

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

Producers to lobby WHO on tobacco

By Paul Solman

International tobacco producers are to meet World Health Organisation officials next week in an effort to convince the UN agency that its campaign against tobacco could destroy the livelihoods of farmers in developing nations.

The International Tobacco Growers' Association (ITGA) will try to convince Derek Yach, who heads the WHO's Tobacco Free Initiative(TFI), that ending tobacco growing would be disastrous for many emerging economies.

"We believe the WHO does not fully understand the effect the TFI would have on tobacco growers in poor regions," said Antonio Abrunhosa, executive director of the ITGA, whose member countries produce 80 per cent of the world's tobacco.

The campaign against smoking is one of the central policies of Gro Harlem Brundtland, WHO director-general. The agency has pledged to reduce smoking-related diseases by discouraging tobacco consumption, and its plans include a global ban on tobacco advertising and sponsorship.

The WHO also aims to dissuade farmers from producing tobacco and encourage them to move into other crops.

However, Dr Abrunhosa said: "Tobacco farmers can't simply switch to other crops like cocoa or sugar. Tobacco is often grown in areas where other crops will not grow." He said local economies in countries such as Tanzania and Malawi relied on the crop.

"Tobacco provides stability. It is a good cash crop with stable demand and earns farmers much more than other crops," Dr Abrunhosa said.

Depending on tobacco
Employed in tobacco growing ('000)

Bangladesh	700
Brazil	800
China	15,000
Colombia	302
India	6,000
Malawi	882
Pakistan	200
Philippines	585
Tanzania	66
Thailand	1,360
Zimbabwe	110

Source: ITGA

In Brazil, the world's largest tobacco exporter, tobacco provides an average income of US$8,000 for every family that grows it, according to the ITGA. That compares with US$2,000 for other crops. "A farmer has to grow nine hectares of corn to equal the income from one hectare of tobacco," the association said recently.

"In Zimbabwe, which exports 98 per cent of its tobacco, the crop has a multiplier effect on the local economy. A kilogram of tobacco that cost Z$7.88 to produce was found to generate Z$33.84 within the local economy."

Dr Abrunhosa said the ITGA aimed to persuade WHO officials that there was no link between tobacco consumption and production. "Putting producers out of business will not stop people smoking," he said.

The ITGA adds that growers' profits from the crop are modest compared with tax income that governments in developed countries make from tobacco sales. "A kilogram of tobacco leaf sold in a developing country for US$2 can earn more than US$291 in excise revenue for developed country governments," the association said.

EU farm ministers close to radical CAP plan

Unless farm ministers deliver a satisfactory agreement their finance ministers may do the job for them, says **Michael Smith**

After more than 18 months of bluff and bluster, European Union farm ministers are closing in on a deal likely to represent the most profound reform of the Common Agricultural Policy since it was set up in 1962.

Much of the detail will be finalised only in the last hours of the negotiations, but ministers, who began last night what could be final negotiations in Brussels, seem ready to be far more radical than they imagined even a few weeks ago.

In spite of the anger of farmers, shown in Brussels yesterday, the farm ministers have little choice.

Finance ministers overseeing the so called Agenda 2000 reforms – incorporating farms and regional aid spending and budget financing – have made clear they want EU spending to be stabilised at the 1999 level of €40.5bn ($45bn) by 2006. Unless farm ministers deliver a satisfactory farms agreement their more senior finance ministers may do the job for them.

Responding to the danger, the farm ministers' solution will establish the principle that direct subsidy payments, which will soon represent the bulk of CAP spending, should be reduced over time with regular annual cuts.

Options include France's proposal for aid cuts of 1 to 3 per cent a year, with exemptions for small farmers, to the UK's 4 per cent annual cuts across the board but for the long term the size of the cuts is less important than the principle.

Any deal to cut subsidies would represent the most decisive change yet to the CAP because it would halt, and probably reverse, the trend established over 37 years for budget growth.

A second test of the farm ministers' reforming zeal will be how much they cut prices. The European Commission says reductions of up to 30 per cent for beef, cereals and milk are essential to allow the EU to expand to the east and to increase exports. What are its chances of success?

Milk is the most difficult sector because member states are so divided about its future. France's argument to retain the status quo has won varying degrees of support from Ireland, Luxembourg and Belgium.

By contrast, a "Gang of Four" of the UK, Italy, Sweden and Denmark want the EU to commit to abolishing production-limiting quotas in 2006.

The commission's proposals are somewhere between the two extremes; it wants to cut prices by 15 per cent and increase quotas by 2 per cent.

One possibility is that reform will be postponed to save money in the early years of the decade and suggested changes only fully implemented towards the end of the 2000-2006 period under discussion. Another is that ministers will commit to a review, say in 2003, but not necessarily to a reform.

There is more agreement about the need for beef reform. Most member states can agree big price cuts, although some argue the commission's 30 per cent is excessive.

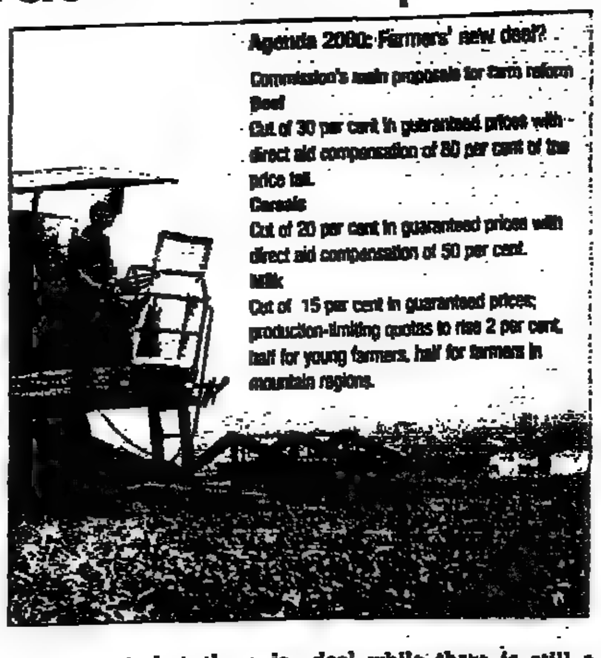
The big battles in beef, however, are over whether direct payment compensation of four-fifths of the fall in prices is enough and whether the compensation should favour extensive or intensive farmers.

Farm ministers also accept the need for large cereal price cuts, although some will resist the commission's 20 per cent, but there is strong hostility to proposals for reducing direct payments for oilseed crops into line with cereals and division over ending the practice of setting aside land to reduce supply.

All these issues could prevent the German presidency fulfilling its hopes of brokering an outline agreement by the end of the week to present to heads of state at their planned summit on March 24 and 25.

In addition, Jean Glavany, French farm minister, has said he cannot agree to a deal while there is still a threat of "co-financing", under which governments would be forced to foot some of the CAP bill directly.

Other farm ministers seem more in the mood for compromise but even if there is a tentative deal this week, and that is by no means certain, there are no guarantees that prime ministers and finance ministers will consider it adequate. The final shape of a deal will have to wait until governments agree to an all-encompassing Agenda 2000 package on March 25, or even later.



Agenda 2000: Farmers' new deal?
Commission's main proposals for farm reform
Beef
Cut of 30 per cent in guaranteed prices with direct aid compensation of 80 per cent of the price fall.
Cereals
Cut of 20 per cent in guaranteed prices with direct aid compensation of 50 per cent.
Milk
Cut of 15 per cent in guaranteed prices; production-limiting quotas to rise 2 per cent, half for young farmers, half for farmers in mountain regions.

Aluminium and copper pull down nickel

MARKETS REPORT

By Gillian O'Connor and Paul Solman

Nickel started the day bravely on the London Metal Exchange yesterday, and touched a peak for the year in early trading, but aluminium and copper continued last week's decline, and by the end of the day had pulled nickel down too.

Copper touched its lowest since 1987 and aluminium its lowest in five years. Martin Squires of Rudolf Wolff said it was unusual for metal prices to fall when the dollar was weak.

Robin Bhar of Brandeis said: "There is a growing awareness in the market place that LME stocks will exceed the 1m tonne mark by mid-year."

He argued it could take a step down in the copper price of as much as $100 or so to force the production cuts needed.

Renewed military action in the Gulf failed to stir London oil prices, which have become range-bound ahead of next month's meeting of the Organisation of Petroleum Exporting Countries.

Analysts and traders are searching for signs that the Vienna meeting will bring further agreements on oil production cuts, though many are sceptical that firm action will be agreed.

In late trading, the April contract for Brent crude was $10.54 a barrel, unchanged from Friday's close. The price has been floating between $10 and $11 since early January, with only fleeting moves above $11.

On the London International Financial Futures and Options Exchange, coffee and cocoa futures fell. May cocoa closed at £914 a tonne, £14 below Friday's close, while May robusta coffee ended down $16 at $1,622 a tonne.

Growing appreciation for gold in 1998

By Gwen Robinson in Sydney

Surging production in the Australian gold industry coincided with record global gold demand in the fourth quarter of 1998, according to Australian data from the World Gold Council.

"The big story of 1998 was of a growing appreciation for the role of gold as a monetary asset," said George Milling-Stanley, the council's market analysis manager.

In the US, fear of the "millennium bomb" and concern over a possible stock market correction drove bullion coin purchases to record levels.

In Japan, "big bang" financial reforms triggered renewed interest in gold's value in portfolio diversification, while there were signs of recovery in gold investment demand in some troubled Asian economies.

Soaring fourth-quarter demand set a recovery trend after a poor start to the year. Demand in countries monitored by the council – the 27 countries covered account for 80 per cent of global demand – reached 806.6 tonnes, up six per cent from a year earlier.

Another happy coincidence for gold producers worldwide was the advent last week of the Lunar New Year, which could significantly lift gold consumption in Chinese communities, according to Mr Milling-Stanley.

Under the 12-animal Chinese zodiac, the Year of the Tiger, which ended last week, was a "traditionally inauspicious year to give gold gifts", he said.

Aggregate demand in China, Hong Kong and Taiwan fell 23 per cent in 1998 to 314.6 tonnes. The new Year of the Rabbit may reverse that trend.

Australia, meanwhile, produced a near-record 312 tonnes of gold in 1998, said Surbiton Associates, a Melbourne-based industry consultant.

Fourth-quarter production of 81.1 tonnes brought the year's tally close to 1997's record yield of 314.5 tonnes, said Sandra Close, Surbiton managing director.

Miners increased yields by treating higher grade ore in the final quarter, while production from new projects outweighed the impact of operations winding down or closing, she said.

Weighted average costs were stable in 1998 after falling sharply in 1997, while the higher Australian-dollar spot gold price for most of 1998 helped improve margins for gold miners.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1161-62	1188-89
Previous	1173-4	1197-8
High/low		1197/1177
AM Official	1169.5-7.5	1182.5-84.0
Kerb close		1176-79
Open int.	297,824	
Total daily turnover	63,319	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1003-08	1020-24
Previous	1007-12	1025-6
High/low		1034/1030
AM Official	1009-04	1030-31
Kerb close		1025-30
Open int.	7,703	
Total daily turnover	1,388	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	514-5	516-7
Previous	523-4	525-6
High/low		526/516
AM Official	518-9	522.5-3.0
Kerb close		516-7
Open int.	36,911	
Total daily turnover	16,319	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	4695-705	4765-75
Previous	4730-40	4800-05
High/low		4850/4760
AM Official	4775-80	4830-35
Kerb close		4780-80
Open int.	72,524	
Total daily turnover	18,230	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5290-300	5240-50
Previous	5340-50	5275-80
High/low		5280/5220
AM Official	5260-65	5220-25
Kerb close		5230-35
Open int.	21,811	
Total daily turnover	5,945	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1011-12	1023-24
Previous	1040-6	1055-6
High/low		1063/1015
AM Official	1032-3	1041-42
Kerb close		1014-15
Open int.	102,021	
Total daily turnover	42,236	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1355-56	1362-63
Previous	1377-8	1403-4
High/low		1370/1360
AM Official	1396-7	1385-6
Kerb close		1361-62
Open int.	189,238	
Total daily turnover	36,225	

■ LME AM Official £/$ rate: 1.6194
LME Closing £/$ rate: 1.6235

Spot: 1.6247 3 mths: 1.6233 6 mths: 1.6234 9 mths: 1.6245

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	61.25	-0.45	61.50	61.20	203	323
Mar	61.35	-0.55	62.30	61.15	6,323	31,830
Apr	61.85	-0.50	62.05	61.70	40	2,830
May	62.20	-0.60	62.90	62.00	3,640	14,632
Jun	62.60	-0.60	63.00	62.50	13	1,514
Jul	63.00	-0.55	63.30	62.90	355	7,454
Total					11,179	75,496

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	287.10-287.60		
Opening	287.50-287.80		
Morning fix	287.20	177.30	261.45
Afternoon fix	287.20	176.76	260.15
Day's High	288.00-288.30		
Day's Low	286.70-287.00		
Previous close	286.80-287.30		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.17	6 months	3.98
2 months	4.16	12 months	3.59
3 months	4.14		

Silver Fix	p/troy oz.	US cts equiv.
Spot	344.13	557.50

Silver Lending Rates

1 month	-7.00	6 months	-5.50
2 months	-7.00	12 months	-5.00
3 months	-6.00		

Gold Coins	$ price	£ equiv.
Krugerrand	290-294	179-181
New Sovereign	68-72	42-44

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	288.0	-0.5	291.5	288.5	381	632
Mar	288.0	-1.0	-	-	-	2
Apr	288.5	-1.0	289.5	287.6	32,000	105.3k
Jun	290.4	-1.0	291.0	[illegible]	1,610	25,992
Aug	292.4	-1.0	[illegible]	292.0	164	6,616
Oct	294.3	-1.0	-	-	3	2,054
Total					34,271	189,782

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	377.4	+1.3	379.5	371.5	4,686	13,352
Jul	374.9	+0.3	375.0	373.5	343	2,094
Oct	374.8	+0.3	374.5	374.5	166	914
Total					5,184	16,384

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	347.40	-5.80	353.20	347.00	639	1,735
Jun	343.40	-4.80	348.60	343.00	459	1,302
Sep	337.40	-4.80	-	-	-	131
Total					1,098	3,274

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Feb	546.0	-13.7	-	-	-	-
Mar	546.0	-14.0	562.0	542.5	19,284	42,100
May	548.8	-13.5	562.0	546.0	10,422	24,721
Jul	547.2	-13.2	557.0	544.5	1,683	13,208
Sep	544.8	-12.2	561.5	546.0	105	4,314
Dec	542.3	-11.2	549.0	540.0	787	7,696
Total					32,480	96,167

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels; $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	11.95	+0.19	11.95	11.70	41,229	29,121
Apr	12.03	+0.13	12.10	11.88	58,825	125.2k
May	12.22	+0.20	12.22	11.98	14,154	62,541
Jun	12.30	+0.15	12.33	12.11	6,830	45,835
Jul	12.43	+0.15	12.45	12.28	3,711	26,264
Aug	12.57	+0.16	12.57	12.47	1,507	18,982
Total					132,992	540,959

■ CRUDE OIL IPE ($/barrel)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	10.49	+0.09	10.51	10.35	15,747	76,675
May	10.67	+0.10	10.69	10.55	4,165	44,010
Jun	10.85	+0.10	10.85	10.77	2,051	36,149
Jul	11.00	+0.08	11.00	10.92	1,309	14,298
Aug	11.15	+0.06	11.15	11.10	225	6,035
Sep	11.21	+0.08	11.31	11.26	281	5,037
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	30.95	+0.61	30.95	30.40	16,505	33,480
Apr	31.50	+0.54	31.50	31.00	12,821	33,712
May	32.20	+0.64	32.20	31.70	3,639	16,016
Jun	32.85	+0.49	32.70	32.30	3,817	17,077
Jul	33.45	+0.54	33.45	33.00	1,736	12,687
Aug	34.35	+0.59	34.35	34.35	876	10,492
Total					43,323	178,491

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	95.50	-0.25	96.50	94.50	11,936	33,531
Apr	95.50	-0.50	96.25	94.75	5,787	[illegible]
May	97.00	-0.25	97.50	96.00	943	12,292
Jun	99.00	-	98.25	98.00	831	11,037
Jul	101.25	-0.25	101.25	100.50	101	4,925
Aug	103.50	-0.50	103.75	103.25	131	5,288
Total					22,448	139,811

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	9.450	+0.040	9.470	9.430	780	4,949
Apr	9.290	+0.030	9.310	9.310	25	3,710
Total					1,478	28,085

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	1.705	-0.040	1.760	1.690	21,272	44,724
Apr	1.710	-0.055	1.770	1.690	11,162	45,979
May	1.730	-0.050	1.805	1.735	3,316	18,405
Jun	1.785	-0.045	1.830	1.770	1,619	17,089
Jul	1.820	-0.042	1.865	1.815	900	15,687
Aug	1.865	-0.028	1.865	1.855	1,006	12,504
Total					43,415	283,316

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Mar	34.60	+0.71	34.85	33.75	17,249	27,285
Apr	37.80	+0.81	37.85	37.00	13,744	32,891
May	38.95	+0.61	38.95	[illegible]	4,226	18,595
Jun	[illegible]	[illegible]	[illegible]	39.00	1,873	16,562
Jul	40.35	+0.62	40.35	39.85	1,328	15,739
Aug	40.40	+0.27	40.40	40.40	538	3,622
Total					38,832	124,486

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	70.40	-0.25	70.50	70.50	43	472
May	72.75	-0.50	72.90	72.75	202	3,407
Jul	74.75	-0.50	-	-	-	981
Sep	73.00	-1.00	-	-	-	193
Nov	74.75	-0.65	75.00	74.75	44	2,247
Jan	76.75	-0.65	-	-	-	421
Total					289	7,749

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	251.75	-3.00	255.75	248.50	17,080	38,292
May	262.25	-2.50	266.75	259.25	8,768	35,931
Jul	271.75	-3.25	275.00	269.00	9,119	45,474
Sep	282.00	-3.50	284.00	279.50	191	4,180
Dec	296.25	-3.25	300.00	293.00	345	6,197
Mar	306.00	-2.50	306.00	304.00	11	673
Total					36,475	130,888

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	214.00	-1.00	215.00	212.00	31,729	96,822
May	219.75	-1.00	221.00	217.50	12,085	94,627
Jul	224.75	-1.00	226.25	222.50	9,397	84,166
Sep	231.75	-0.75	233.00	230.00	795	19,717
Dec	239.75	-0.75	241.00	237.50	3,005	46,538
Mar	247.50	-0.75	248.50	246.50	702	6,418
Total					57,785	367,221

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	74.30	-0.20	74.30	74.30	10	118
May	75.50	-0.25	75.80	75.50	12	175
Sep	73.00	-0.75	-	-	-	35
Nov	75.25	-0.75	-	-	-	255
Jan	77.25	-0.75	-	-	-	20
Total					22	603

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	474.00	-4.25	478.25	464.50	29,329	42,942
May	478.25	-4.50	483.00	470.00	13,873	40,596
Jul	484.50	-5.00	489.50	476.00	8,617	39,086
Aug	486.00	-5.25	489.00	480.00	1,141	11,578
Sep	488.50	-4.50	488.50	483.00	177	4,533
Nov	496.50	-5.00	501.00	489.75	2,065	23,425
Total					55,[illegible]	[illegible]

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	18.69	-0.02	18.91	18.26	13,241	31,340
May	18.66	-0.13	19.19	18.52	11,156	41,868
Jul	19.33	-0.11	19.40	18.77	4,843	25,492
Aug	19.49	-0.07	19.55	18.95	845	5,891
Sep	19.61	-0.09	19.70	19.10	507	5,968
Oct	19.68	-0.14	[illegible]	19.30	253	3,372
Total					[illegible]	[illegible]

■ SOYABEAN MEAL CBT (100 tons; $/ton)

[illegible]

■ POTATOES LIFFE (20 tonnes; £ per tonne)

[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

[illegible]

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	924	-23	949	925	5,081	22,464
May	914	-14	936	914	4,162	43,894
Jul	928	-13	947	[illegible]	611	13,401
Sep	944	-11	961	945	247	30,020
Dec	964	-11	980	966	1,368	24,508
Mar	984	-11	998	987	88	17,235
Total					11,[illegible]	160,767

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1299	-17	1321	1297	381	1,392
May	1309	-19	[illegible]	1308	5,642	36,987
Jul	1332	-18	1352	1332	576	11,330
Sep	[illegible]	-18	1377	[illegible]	[illegible]	5,935
Dec	1396	-18	1417	1411	1,170	8,326
Mar	1430	-18	1430	1430	50	8,300
Total					8,087	68,[illegible]

■ COCOA (ICCO) (SDR's/tonne)

Feb 19	Price	Prev. day
Daily	1049.10	1031.20

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1684	-25	1715	1684	3,259	14,035
May	1622	-16	1640	1621	3,245	19,990
Jul	1613	-14	1637	1613	362	5,631
Sep	1606	-13	1627	1607	34	2,347
Nov	1600	-5	1600	1600	51	848
Jan	1588	-11	1588	1588	10	388
Total					6,945	44,127

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	102.80	-0.45	104.50	102.00	690	2,957
May	103.75	-0.80	105.45	102.25	2,730	21,582
Jul	105.15	-0.70	106.25	104.25	515	6,887
Sep	106.50	-1.00	107.50	106.00	258	3,589
Dec	107.75	-1.05	109.00	107.50	21	1,689
Mar	109.00	-1.20	110.00	109.00	40	531
Total					4,323	37,849

■ COFFEE (ICO) (US cents/pound)

Feb 19	Price	Prev. day
Comp. daily	91.62	91.54
15 day average	92.58	[illegible]

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	219.2	-2.0	221.8	219.0	1,135	23,347
Aug	213.3	-2.2	215.8	213.5	679	10,643
Oct	208.9	-1.4	209.3	207.5	379	7,685
Dec	209.2	-1.1	210.8	209.3	41	1,912
Mar	211.9	-1.2	214.0	212.0	215	2,992
May	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total					[illegible]	[illegible]

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

[illegible]

■ COTTON NYCE (50,000lbs; cents/lbs)

[illegible]

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

[illegible]

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	64.150	-0.025	64.400	63.850	2,269	5,159
Apr	66.450	-0.250	66.850	66.150	8,119	52,486
Jun	64.800	-0.500	64.900	64.300	1,961	28,511
Aug	63.800	-0.825	64.000	63.350	735	13,757
Oct	65.425	-0.275	65.500	64.900	481	7,982
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3,733
Total					11,977	112,194

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	[illegible]	-0.025	[illegible]	45.100	3,345	17,072
Jun	[illegible]	+0.300	[illegible]	[illegible]	[illegible]	9,718
Jul	57.200	+0.425	57.250	56.100	440	4,118
Aug	57.600	+0.425	57.750	56.800	107	3,889
Oct	[illegible]	+0.350	[illegible]	55.350	76	4,309
Dec	[illegible]	+0.575	[illegible]	[illegible]	11	2,017
Total					5,823	41,111

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Feb	53.000	-1.600	53.200	52.000	179	223
Mar	52.550	-1.760	53.300	52.150	872	2,841
May	54.325	-1.750	55.100	54.000	304	1,364
Jul	55.200	-1.300	55.700	54.750	42	864
Aug	54.950	-0.850	55.200	54.950	5	233
Total					1,402	5,515

LONDON TRADED OPTIONS

Strike price $ tonne	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Apr	Jul	Apr	Jul
1150	-	72	-	27
1200	-	45	-	48
1250	-	26	-	78
■ COPPER (Grade A) LME	Apr	Jul	Apr	Jul
1350	52	93	31	47
1400	26	67	57	70
1450	14	47	92	98
■ COFFEE LIFFE	May	Jul	May	Jul
1600	142	65	1	44
1650	92	40	1	66
1700	43	25	1	103
■ COCOA LIFFE	May	Jul	May	Jul
900	43	59	29	31
925	31	47	42	44
950	22	36	58	58
■ BRENT CRUDE IPE	Mar	Apr	Mar	Apr
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

[illegible]

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

[illegible]

■ NATURAL GAS (Pence/therm)

[illegible]

■ OTHERS

[illegible]

PULP AND PAPER

■ PULPEX (100 tonnes; $ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	417.50	-0.75	417.50	417.50	10	[illegible]
Total					[illegible]	[illegible]

FUTURES DATA
All futures data supplied by CMS.

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

Minor Metals from Metal Bulletin. European free market, $ per pound in warehouse. Antimony: 99.65%, $ per tonne, 1,430-1,485. Bismuth: min. 99.99%, tonne lots, 2.90-3.10 (2.95-3.10). Cadmium: min. 99.95%, cents a pound, 20-24. Cobalt: MB free market, min. 99.8%, 18.00-20.00 (18.00-20.00), min. 99.3%, 16.70-18.00 (16.70-18.00). Mercury: min. 99.99%, $ per 76 pound flask, 137-145. Molybdenum: drummed molybdic oxide, 2.95-3.10 (2.90-3.10). Selenium: min. 99.5%, 1.40-2.30. Tungsten ore: 33-44. Uranium: Nuexco, unrestricted exchange value 9.85. Vanadium: min. 98%, 2.45-2.55 (2.45-2.60).

INDICES

■ Reuters (Base: 18/9/31 = 100)

Feb 22	Feb 19	month ago	year ago
1437.2	1429.8	1487.5	1710.7

■ CRB Futures (Base: 1967 = 100)

Feb 19	Feb 18	month ago	year ago
183.50	185.09	[illegible]	[illegible]

■ GSCI Spot (Base: 1970 = 100)

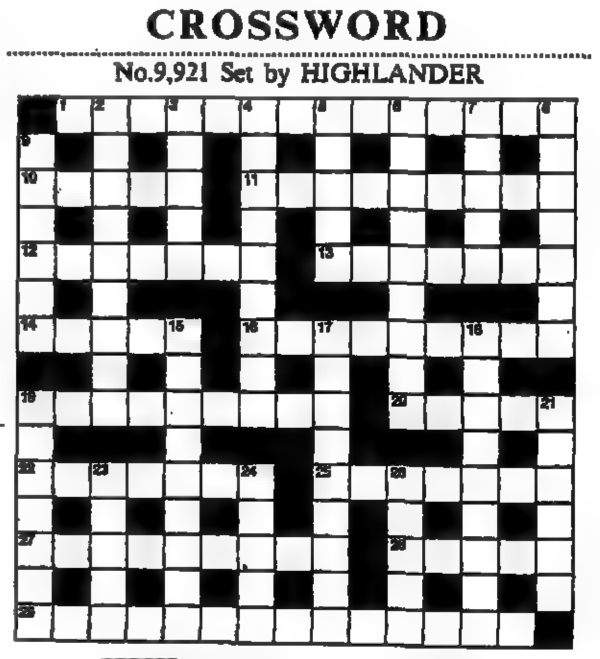
Feb 22	Feb 19	month ago	year ago
131.40	132.21	133.58	178.21

■ LME WAREHOUSE STOCKS (tonnes)

Aluminium	+1,375	to	832,150
Aluminium alloy	+420	to	59,840
Copper	+5,600	to	560,725
Lead	-175	to	167,650
Nickel	-96	to	63,556
Zinc	+9	to	305,325
Tin	-400	to	7,595

CROSSWORD

No.9,921 Set by HIGHLANDER



ACROSS
1 Wild West gunslingers had to be brief about the lottery (5,2,3,4)
10 Late perpendicular in build, like Henry VIII (5)
11 The wine, so said Ernest, is drunk (9)
12 Organised over-rate recount (7)
13 Humiliated by sound of activity and lost blood (7)
14 A primary school teacher could be wrong (5)
16 Obesity: get round it somehow – try staying empty (9)
19 Two together should improve one's view for a showy performance (9)
20 Long stories with twisted threads (5)
22 Follow communist supporter at a gentle steady pace (7)
25 Criminal not well – a leg broken (7)
27 Italian restaurant takes tart out to warm over (9)
28 Pause part way through the sentence but pass on (5)
29 All the time military men must follow these regular bookings (3,6)

DOWN
2 Stress it's inferior to the railway (9)
3 It's about now approximately in Ancient Rome (5)
4 Concerned with childbirth? Don't make marked alterations in old original crib (9)
5 Make contact with top of tree – Owl (5)
6 Stable needs cash to make bet (4,5)
7 Some children always suffer from malfunctions of the kidney (5)
8 Traditional time for cleaning fabrics was hot period (7)
9 Part of poem commemorating first Anzac landing in Gallipoli (6)
15 Half-day adjudged to be soaking wet (9)
17 Make do with hit originally produced by G & S (3,6)
18 Not uniform for guerrilla (especially with one left out right at the end) (9)
19 Initially stop eating fruit: provides drugs (7)
21 The waters to the north of IOW are so fast (6)
23 Hang out round a place in Africa (5)
24 One gets into the act in Italy (5)
26 Clear line pursued by university investigators (5)

Solution to Saturday's prize puzzle on Saturday March 6.
Solution to yesterday's prize puzzle on Monday March 8.

For solutions to today's crossword call 0891 430060. Calls cost 50p a minute.

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ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

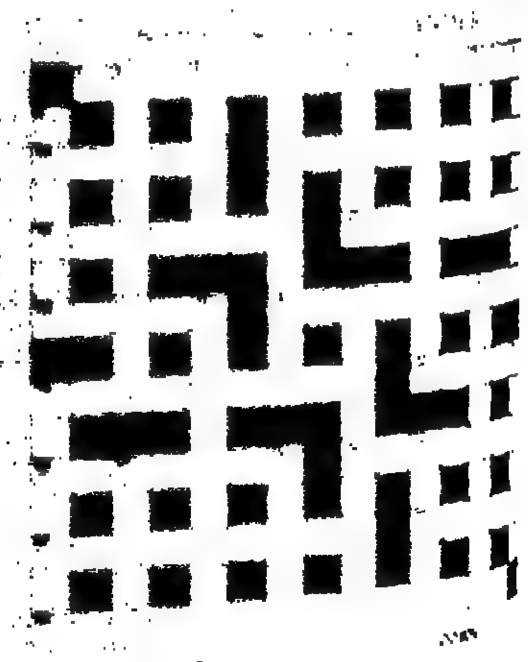
AP plan

Aluminium and copper pull down nickel

MARKETS REPORT

n 1998

CROSSWORD



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OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Allied Domecq	N	471½	+3½	640	385	4,495	5.4	12.3
Bulmer (HP)		283½	—	389	279½	-	6.6	12.7
Burn Stewart		12½	[illegible]	30½	7	52	-	-
Diageo	[illegible]	[illegible]	+5½	795	478	7,540	3.0	19.9
Glenmorangie A	†	712½	—	900	625	-	2.5	19.3
B	†	627½	---	950	610	-	1.1	44.9
Highland		258½	[illegible]	325	225	[illegible]	4.7	11.5
5¼pc Cv Sb Bd		97¾	-½	108½	90½	-	3.9	-
Kirin Y		719xd	+23½	814¼	457½	-	0.9	58.7
Merrydown		28½	[illegible]	64½	18½	[illegible]	-	ϕ
Seagram C$		[illegible]	[illegible]	[illegible]	[illegible]	-	0.9	-

BANKS, RETAIL

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
ABN Amro Fl		[illegible]	[illegible]	[illegible]	[illegible]	-	3.1	15.3
ANZ A$		[illegible]	[illegible]	[illegible]	[illegible]	-	5.0	ϕ
Abbey National	♣♥	1237	-14	1380	880	6,070	3.2	19.9
Alliance & Leicester	♣†	[illegible]	+1½	1032	683	1,107	3.2	16.7
Allied Irish I£		1028xd	-10½	1262½	702	-	2.3	ϕ
Anglo Irish I£	†	172½xd	[illegible]	181½	118	7	3.0	16.5
Asahi Y		[illegible]	[illegible]	338½	140	-	1.2	-
Banco Bilbao Viz Pta		[illegible]	[illegible]	[illegible]	[illegible]	-	1.6	11.3
Banco Santander Pta	†	[illegible]	[illegible]	[illegible]	[illegible]	-	2.5	12.8
Bank Ireland I£	†	1312½	[illegible]	1487½	882½	-	2.1	21.5
Bank Scotland	♣†	900½	[illegible]	928	457	2,798	1.4	22.6
9¼pc Ird Pf		170½	+½	174	152	-	5.5	-
9½pc Ird Pf		173½	---	183½	160½	-	7.0	-
Bk of Tokyo Mitsubishi Y		[illegible]	[illegible]	[illegible]	[illegible]	-	0.6	ϕ
Barclays	♣♥	[illegible]	-2½	1950	827	5,281	3.4	18.6
Dai-Ichi Kangyo Y		[illegible]	[illegible]	[illegible]	[illegible]	-	1.1	-
Deutsche DM	S	[illegible]	[illegible]	[illegible]	[illegible]	-	2.5	-
Espirito Santo Fnl US$		[illegible]	[illegible]	[illegible]	[illegible]	-	3.6	ϕ
First Active		292½	[illegible]	350½	229½	[illegible]	-	17.6
Fuji Y		228½	-1½	531	112½	-	1.9	-
HSBC (HK$10)	♣♥	1577	+16	2002	937	3,358	3.9	16.0
HSBC (75p)	♣♥	[illegible]	[illegible]	2073	930	4,713	3.9	16.4
Halifax	♣♥	781	+1	990	649½	2,388	2.9	16.1
Irish Permanent		987½	—	1055	587	-	1.6	28.6
Lloyds TSB	♣♥	903½xd	+16	1090	555	7,670	2.6	23.9

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

FOOD PRODUCERS

FOOD PRODUCERS - Continued

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Continued

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

MEDIA - Continued

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Continued

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Continued

TELECOMMUNICATIONS

TOBACCO

TRANSPORT

TRANSPORT - Continued

WATER

AMERICANS

CANADIANS

SOUTH AFRICANS

TRADED INDEX SECURITIES

AIM

Alternative Investment Market

AIM - Continued

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LONDON STOCK EXCHANGE

Footsie regains early losses after Wall St rise

MARKET REPORT

By Steve Thompson, UK Stock Market Editor

A strong opening performance by Wall Street revived a London stock market that had earlier seen the FTSE 100 index dip below the 6,000 level.

Wall Street came in exceptionally strong, easing the anxieties across most European markets ahead of today's speech by Alan Greenspan, chairman of the US Federal Reserve.

In his regular bi-annual Humphrey Hawkins testimony on the outlook for the US economy, Mr Greenspan is expected by some observers to outline to the Senate banking committee that US gross domestic product growth will slow to around 2.5 per cent this year.

The Greenspan speech, nevertheless, remains one of the most important global events of the week. As one senior UK market man said: "More than anyone else, Greenspan has the capacity to turn world markets upside down and everyone knows that. Marketmakers are told to go into a Greenspan day with a small short to level book, if possible."

To add to traders' caution, the market is also waiting for a long list of important company results this week. Corporate earnings growth remains a worry, given the slowing economy and the still-strong pound.

London's equity market was undecided for most of the day, moving higher during initial trading, on talk of more bids in the pipeline, and a strong early showing by some of the big European markets – notably Frankfurt and Paris.

On the downside, preliminary results from HSBC, the second biggest of the UK retail banks, proved a substantial drag on the market, after the bank's apparent lack of loan growth upset sentiment in the stock, one of the heaviest weighted stocks in the FTSE 100 index. The bank's profits, dividend and bad debt provisions all came within the market's expectations.

"It was the banks that burdened the market during the morning and the telecoms that triggered the afternoon rally," said one trader.

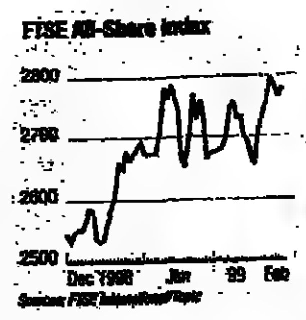
At the finish of a rather lacklustre session, the FTSE 100 was a net 38.7 firmer at 6,069.9, having swung in an 86-point arc, hitting 5,994.8 at its worst.

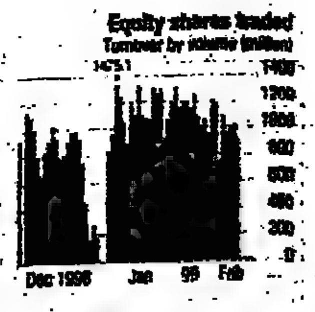
The market's mid and small-cap stocks made useful progress. The FTSE 250 index settled 7.6 ahead at 5,180.7, having peaked at 5,188.9, while the FTSE SmallCap maintained its persistent upside march, finishing 6.5 to the good at 2,255.6.

Wall Street's strength came as a surprise to many in London, the Dow Jones Industrial Average climbing more than 150 points not long after London closed for the session, building on Friday's 41-point advance.

Some marketmakers see the London market as still offering decent value "but only if Wall Street holds up", as one put it. He said the domestic interest rate outlook "looks secure" and that the market's worries remained focused on the earnings outlook, which would become much clearer in coming weeks.

Activity in the market proved a minor disappointment. Always depressed at the start of the week, overall turnover yesterday was 915.5m shares, with non-FTSE 100 stocks accounting for less than half the total.





Source: FTSE International/Tradepoint

Indices and ratios

FTSE 100	6069.9	+38.7	FT 30	3687.3	+17.0
FTSE 250	5180.7	+7.6	FTSE Non-Fins p/e	24.30	23.96
FTSE 350	2875.7	+16.6	FTSE 100 Fut Mar	6105.0	+118.0
FTSE All-Share	2779.97	+15.27	10 yr Gilt yield	4.67	4.62
FTSE All-Share yield	2.76	2.78	Long gilt/equity yld ratio	1.64	1.64

Best performing sectors		Worst performing sectors	
1 Food Producers	+2.95	1 Food Retailers	-1.48
2 Oil, Integrated	+2.19	2 Breweries, Pubs & Rest	-1.31
3 Gas Distribution	+2.12	3 Oil Exploration & Prod	-1.29
4 Resources	+1.86	4 Property	-1.06
5 Household Goods	+1.74	5 Distributors	-0.82

Shake-up unsettles HSBC

COMPANIES REPORT

by Peter John, Joel Kibazo and Martin Brice

Figures from HSBC were disappointing but not as bad as the share price suggested. The bank announced it is to consolidate its two classes of shares into a single class of equity denominated in US dollars and seek a listing on the New York exchange.

Immediately, the UK-denominated share price, which was quoted more than 100p above its Hong Kong-denominated equivalent, tumbled sharply while the Hong Kong element rose.

Nevertheless, the figures were at the bottom of the range of forecasts and analysts were concerned about the rise of non-performing loans in Hong Kong and the lack of loan growth in Asia.

Analysts were busily crunching a complex set of numbers and coming up with downgrades of between 5 per cent and 20 per cent with early indications suggesting a full-year range between $6bn and $6.5bn.

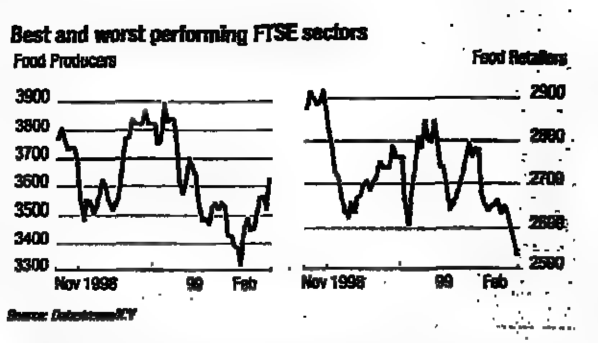
Panmure Gordon and Dresdner Kleinwort Benson said the shares should be avoided until they hit £14.00.

"Ultimately," said one broker, "investors are not interested in the detail, but they are interested in the trend and if the trend is one of downgrades rather than upgrades, investors get unhappy." UK-denominated stock fell 67 to £16.09, the worst performance in the Footsie, while Hong Kong shares rose 16 to £15.77.

Compass Group was one of the worst performers in the FTSE 100 as Merrill Lynch highlighted the potential for small downgrades to forecasts following a trading update expected at Thursday's annual meeting.

It believes the contract catering and restaurants group may have run into some pockets of trading weakness in the UK and Germany, and has shifted its short-term stance from "accumulate" to "neutral" although its retains a long-term "buy" stance.

The broker focused on the likelihood of French hotels group Accor selling its stake of almost 5 per cent in the company, following the expiry of a lock-up period last week. The potential for this overhang to weigh on the shares may explain their 12 per cent underperformance in the past month. However, they have outperformed the Footsie by 55 per cent in the past year. They closed down 19 at 696½p.



Source: Datastream/ICV

The market was eagerly waiting to see if Anglo-Dutch consumer products giant Unilever unveils its first share buy-back programme when it reports figures today. Speculation about a buy-back has grown as the market has sought to find ways in which the company could use its $4bn cash pile raised through the selling of its speciality chemicals business.

Unilever is expected to buy back around £1bn of its own shares and yesterday the stock appreciated 42 to 625½p in a busy session that brought turnover of 17m. "It is certainly the right thing to do given the state of the company's balance sheet," said one market specialist.

Analysts at Credit Suisse First Boston are predicting the company will report fourth-quarter profits of £617m while it expects full-year post-disposal profits to come in at £3.02bn.

Talk of a bid for Rank Organisation eased as the session drew to a close. The shares surrendered some of their early gains to end 12¼ up at 285p.

A weekend press report said a group of equity investment firms was assembling the bid, which is believed to involve companies like Cinven and Candover Investments and would be pitched at about 275p a share. A US bank was said to be the lead underwriter for Rank's debt of about £1bn, which together would raise the value of the prospective deal to £3.1bn.

However, one leisure sector specialist dismissed the report and latest rumours, saying: "We have had this talk so many times and I don't think a bid is round the corner. For one thing, Rank would be quite a difficult company to break up."

BAe reassures

British Aerospace was up almost 5 per cent or 19 at 421p as it continued to benefit from its move to reassure investors that the Al Yamamah arms contract with Saudi Arabia was safe.

The shares have suffered following press reports the contract had been frozen as the Saudi government faced a slump in oil prices.

Current fears by analysts are said to centre on the timing of cash payments to make up the shortfall caused by the low oil price.

BICC gained 2 to 80p after it said a joint venture involving Balfour Beatty Rail, its rail engineering and services arm, had won a contract to renew Railtrack's west coast main line electrification.

A special dividend of 35p and full-year profits well above market expectations helped Ulster Television close up 28 at 220p. The company said it would continue to focus on the Republic of Ireland for further growth.

Bid speculation continued to power engineering group Weir, which achieved one of the better performances in the FTSE 250. The shares, which were at 162p in October, gained 10¼ to 265p. There was talk that any bid would need to exceed 330p a share to be successful because the company has already firmly rejected a 300p approach from Flowserve. The bid talk centred on another, higher approach from Flowserve, or Ingersoll-Rand of the US.

British Energy recovered 30¼ to 645p with investors taking an optimistic line over the latest regulatory ruling on electricity pool prices, which might be released as early as today.

There were also reports in the weekend press that the nuclear power group was considering a bid for Yorkshire Electricity.

Hotels and gaming company Ladbroke Group firmed 7¼ to 270½p and Stanley Leisure 7¼ to 286½p following the abandonment of the William Hill flotation.

An announcement that Mirror Group had built up around an 18 per cent stake in Scottish Media Group prompted a couple of raised eyebrows. The shift of the 12m share holding in SMG from Scottish Daily Record and Sunday Mail to Mirror Group was principally a tidying-up operation.

However, it led to some speculation that the housekeeping might have been carried out ahead of a yard sale – that Mirror was trying to make it easier for a buyer of the whole group to dispose of the stake. Mirror firmed a penny to 195½p and SMG closed flat at 810p.

FT 30 INDEX

	Feb 22	Feb 19	Feb 18	Feb 17	Feb 16	Yr ago	*High	*Low
FT 30	3687.3	3670.3	3698.80	3700.5	3697.7	3490.1	4604.9	2790.8
Ord. div. yield	[illegible]	2.82	2.80	2.81	2.81	3.08	4.22	2.72
P/E ratio net	23.86	23.76	23.92	23.80	23.90	23.02	25.41	16.80
P/E ratio nil	23.76	23.66	23.82	23.79	23.80	N/A	26.19	15.71

FT 30 since compilation: high 4604.9 7/15/98; low 49.4 26/6/40. Base Date: 1/7/35.

FT 30 hourly changes

9	10	11	12	13	14	15	16	High	Low
3670.3	3676.7	3672.8	3648.4	3653.2	3656.0	3666.8	3680.7	3694.1	3646.3

STOCK MARKET TRADING DATA

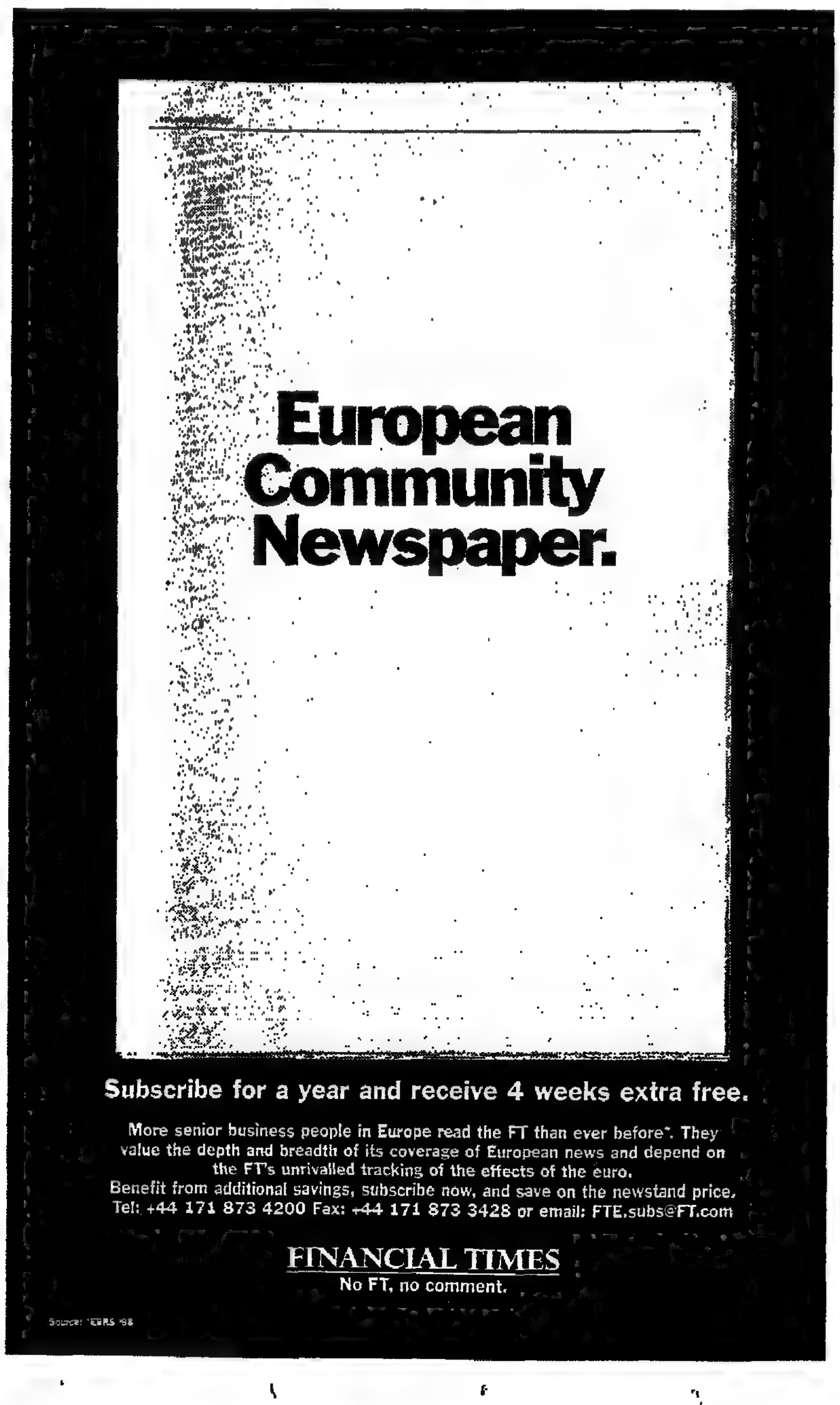
	Feb 22	Feb 19	Feb 18	Feb 17	Feb 16	Yr ago
SEAQ bargains	79,264	85,289	79,463	83,669	82,194	n/a
Equity turnover (£m)†	-	3479.8	3321.1	4268.0	4564.1	n/a
Equity bargains†	-	64,257	80,817	70,160	78,876	n/a
Shares traded (mil)†	-	831.7	775.8	1023.7	1025.8	n/a
Total market bargains†	-	87,184	78,941	85,686	85,628	-
Total turnover (£m)†	-	4599.7	4312.1	5504.7	5807.9	-
Total shrs traded (mil)†	915.5	1068.2	998.6	1252.6	1266.2	-
Tradepoint turnover (£m)	15.0	25.8	27.7	32.0	36.6	16.8
Tradepoint shrs traded (mil)	7.0	9.2	10.7	10.7	11.1	7.7

†Excluding intra-market and overseas turnover. [illegible]

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	815	Total Highs	43	Total contracts	29,656
Total Falls	[illegible]	Total Lows	43	Calls	14,436
Same	1,460			Puts	15,220

Feb 22 *Data based on Equity shares listed on the London Share Service.



FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	6070.0	6078.5	+74.0	6125.0	5985.0	22711	166299
Jun	6087.0	6118.0	+75.0	6157.0	6077.0	750	21757
Sep	-	6158.0	+74.5			0	2053

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

Mar	5186.0	5178.0	+4.0	5195.0	5182.0	407	7621
Jun	5185.0	5188.0	+1.0	5189.0	5188.0	295	6942

■ FTSE 100 INDEX OPTION (LIFFE) (*6070) £10 per full index point — [illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point — [illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

[illegible]

FTSE GOLD MINES INDEX

	Feb 19	% chg on day	Feb 18	Year ago	Gross div yield %	Total return	52 week High	Low
Gold Mines Index (32)	982.86	9.3	904.44	1095.82	2.82	913.89	1381.87	701.68
Regional Indices								
Africa (9)	994.36	-1.0	874.28	1035.75	4.25	978.22	1485.04	765.83
Australasia (8)	1141.25	1.4	1125.12	1334.75	2.69	1153.26	1690.53	815.93
Americas (11)	854.90	0.7	848.47	1014.05	0.85	858.63	1317.41	647.89

 [illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

[illegible]

TRADING VOLUME

■ Major Stocks yesterday.

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE (EMU) Prices in €

AUSTRIA (Feb 22) / € = 13.7603 Sch

BELGIUM/LUX (Feb 22) / € = 40.3399 Frs.

FINLAND (Feb 22) / € = 5.94573 Mka

FRANCE (Feb 22) / € = 6.55957 Frs.

GERMANY (Feb 22) / € = 1.95583 Dm.

IRELAND (Feb 22) / € = 0.787564 Punt

ITALY (Feb 22) / € = 1936.27 Lira

NETHERLANDS (Feb 22) / € = 2.20371 Fl.

PORTUGAL (Feb 22) / € = 200.482 Esc.

SPAIN (Feb 22) / € = 166.386 Pta.

EUROPE (NON-EMU)

CZECH REP (Feb 22 / Korun)

DENMARK (Feb 22 / Kr)

GREECE (Feb 19 / Drachma)

NORWAY (Feb 22 / Krone)

POLAND (Feb 22 / Zloty)

SWEDEN (Feb 22 / Skronor)

SWITZERLAND (Feb 22 / Frs.)

TURKEY (Feb 22 / TL Lira)

PACIFIC

JAPAN (Feb 22 / Yen)

HONG KONG (Feb 22 / H.K.$)

INDONESIA (Feb 22 / Rupiah)

MALAYSIA (Feb 22 / MYR)

NEW ZEALAND (Feb 22 / NZ $)

SINGAPORE (Feb 22 / S$)

AUSTRALIA (Feb 22 / Aust$)

SOUTH KOREA (Feb 22 / Won)

TAIWAN (Feb 22 / TW $)

THAILAND (Feb 22 / Baht)

AMERICAS

CANADA

TORONTO (Feb 22 / Can $) 4 pm close

MONTREAL (Feb 22 / Can $) 4 pm close

MEXICO (Feb 22 / Peso) 12.30 pm

AFRICA

SOUTH AFRICA (Feb 22 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY FEBRUARY 19 1999 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY FEBRUARY 18 1999 US Dollar Index	Pound Sterling Index	Yen Index	Euro Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (75)	213.57	2.0	194.32	162.71	221.65	222.56	1.6	3.31	209.46	190.11	158.64	214.93	219.22	219.96	163.86	208.12
Austria (21)	181.00	0.1	164.69	137.90	185.76	185.76	1.3	2.01	180.78	164.08	136.92	163.88	163.88	253.73	165.27	200.07
Belgium (22)	396.49	-0.1	360.74	302.07	355.49	355.49	1.1	1.90	396.69	360.65	300.45	351.86	351.86	446.95	277.19	277.48
Brazil (29)	105.51	-0.2	96.00	80.39	109.51	374.83	1.3	6.19	105.77	96.00	80.11	108.53	369.92	269.34	89.32	231.50
Canada (113)	204.32	0.4	185.90	155.67	212.06	220.67	0.6	1.89	203.53	184.73	154.15	208.84	219.32	248.78	159.94	220.69
Denmark (34)	453.31	-0.9	412.45	345.37	470.47	413.20	0.2	1.74	457.49	415.24	348.50	469.44	412.28	537.33	420.12	460.84
Finland (29)	585.57	0.8	532.79	446.14	658.58	658.56	1.9	1.75	580.94	527.28	440.00	645.95	645.85	661.25	336.02	336.02
France (74)	319.13	0.7	290.36	243.14	295.96	295.96	1.9	2.87	316.88	287.59	239.99	290.53	290.53	354.45	252.02	252.02
Germany (55)	253.63	-2.0	230.77	193.23	232.44	232.44	-0.9	1.42	258.94	235.02	196.12	234.82	234.82	325.61	228.95	244.87
Greece (36)	396.72	-4.3	360.96	302.25	411.74	825.02	-3.2	1.03	414.57	376.26	313.99	425.39	851.93	428.65	211.47	–
Hong Kong, China (66)	270.13	-2.7	245.78	205.81	280.36	269.74	-2.7	4.54	277.58	251.95	210.24	284.84	276.13	382.65	196.54	339.34
Indonesia (24)	49.23	1.0	44.80	37.51	51.10	267.30	1.1	1.14	48.76	44.26	36.93	50.04	264.36	64.52	19.84	53.19
Ireland (14)	539.27	0.2	490.66	410.86	539.37	539.37	1.3	1.88	538.29	488.57	407.78	532.30	532.30	605.65	386.15	461.31
Italy (53)	165.21	1.1	150.31	125.87	215.32	215.32	2.2	1.48	163.46	148.36	123.81	210.84	210.84	182.64	128.65	132.99
Japan (445)	94.75	-0.7	86.21	72.19	98.34	72.19	-0.1	1.09	95.38	86.57	72.24	97.67	72.24	107.82	78.83	103.53
Mexico (29)	1219.42	1.7	1109.50	929.06	1265.58	13229.87	2.1	1.94	1198.99	1088.24	908.11	1230.30	12951.78	1733.73	787.15	1528.71
Netherlands (28)	475.24	0.1	432.40	362.06	430.82	430.82	1.2	2.29	475.02	431.14	359.78	425.75	425.75	582.73	394.82	434.73
New Zealand (18)	57.57	4.1	61.48	51.48	70.13	66.18	3.6	4.24	64.90	58.91	49.15	66.59	63.90	77.84	45.88	77.34
Norway (37)	222.88	-0.9	202.79	169.81	231.32	238.83	-0.4	2.28	224.81	204.04	170.27	230.68	237.81	357.71	181.86	301.05
Philippines (22)	84.25	-0.2	76.65	64.19	87.44	183.32	0.3	1.80	84.49	76.69	63.92	86.80	162.77	169.96	42.48	90.57
Portugal (18)	247.85	-1.2	225.51	188.83	306.53	306.53	-0.1	1.07	250.98	227.80	190.09	305.99	306.99	289.39	194.13	–
Singapore (40)	198.54	3.0	180.66	151.27	206.06	156.18	3.4	1.79	192.79	174.98	146.01	197.82	151.09	248.74	102.45	217.91
South Africa (35)	187.08	-1.7	170.22	142.53	194.16	255.77	-0.3	3.52	190.34	172.75	144.16	195.31	255.47	346.20	151.55	279.78
Spain (30)	379.10	-0.2	344.92	288.83	430.69	430.69	0.9	1.87	379.90	344.81	287.73	428.72	428.72	435.19	290.61	309.85
Sweden (43)	523.06	0.5	475.91	398.51	542.86	622.25	1.4	1.95	520.74	472.64	394.41	534.34	613.86	638.19	379.10	504.03
Switzerland (30)	385.93	-1.8	351.14	294.03	400.54	344.99	-0.4	1.24	392.35	356.11	297.17	402.89	346.45	441.65	307.73	373.98
Thailand (31)	21.24	-0.5	19.32	16.18	22.04	30.94	0.8	2.91	21.34	19.37	16.16	21.90	30.88	33.84	8.15	31.58
United Kingdom (201)	381.72	-0.8	347.31	290.82	396.17	347.31	-0.6	2.79	384.95	349.39	291.56	395.00	349.39	461.84	307.96	303.37
USA (613)	511.24	0.2	465.15	389.50	530.59	511.24	0.2	1.29	510.28	463.14	386.48	523.60	510.28	527.72	390.12	420.39
Americas (784)	453.64	0.2	412.75	345.62	470.81	385.03	0.2	1.33	452.78	410.91	342.89	464.55	384.20	467.80	347.59	380.51
Europe (723)	347.70	-0.6	316.36	264.91	360.86	327.16	0.2	2.08	349.78	317.42	264.88	358.86	326.33	396.24	282.88	314.02
Eurobloc (342)	98.98	-0.2	90.06	75.41	98.18	98.18	0.9	1.79	99.18	90.02	75.12	97.27	97.27	113.92	81.58	–
Nordic (143)	492.32	0.2	447.94	375.09	510.96	507.27	1.2	1.88	491.13	445.77	371.98	503.85	501.11	555.97	390.04	442.69
Pacific Basin (721)	102.70	-0.5	93.44	78.24	106.59	80.38	0.0	1.58	103.17	93.64	78.14	105.86	80.41	117.89	82.86	113.38
Euro-Pacific (1444)	204.57	-0.5	186.13	155.86	212.32	173.09	0.2	1.94	205.69	186.69	155.79	211.06	172.79	221.79	168.00	197.06
North America (726)	490.46	0.2	446.25	373.67	509.03	481.17	0.2	1.30	489.50	444.29	370.75	502.29	480.17	506.43	374.92	407.59
Europe Ex. UK (522)	319.64	-0.5	290.83	243.53	331.74	307.82	0.7	1.71	321.07	291.41	243.18	329.45	305.51	365.32	260.93	269.70
Europe Ex. Eurobloc (381)	96.49	-1.0	87.79	73.51	100.14	97.82	-0.4	2.37	97.42	88.42	73.78	99.96	98.05	103.93	77.40	–
Europe Ex. UK Ex. Eurobloc (180)	94.84	-1.2	86.29	72.26	98.43	93.94	-0.1	1.46	96.01	87.14	72.72	98.52	94.08	109.21	75.18	–
Pacific Ex. Japan (276)	177.98	0.3	161.94	135.60	184.72	181.04	0.1	3.82	177.47	161.08	134.41	182.10	180.83	215.04	128.26	204.18
World Ex. Eurobloc (1921)	104.45	-0.1	95.03	79.58	108.40	103.83	0.1	1.58	104.57	94.91	79.20	107.30	103.77	108.05	83.09	–
World Ex. US (1650)	204.13	-0.5	185.73	155.53	211.86	178.03	0.2	1.97	205.18	186.21	155.38	210.51	177.86	221.91	165.95	200.23
World Ex. UK (2062)	295.57	0.0	268.92	225.19	306.76	287.13	0.3	1.48	295.78	268.39	223.96	303.42	286.36	311.48	236.11	262.44
World Ex. Japan (1818)	408.43	-0.1	369.80	309.65	421.82	400.21	0.2	1.66	408.73	369.16	308.05	417.35	399.31	427.90	320.58	354.78
The World Index (2263)	302.98	-0.1	275.67	230.84	314.46	274.40	-0.2	1.69	303.37	275.35	229.77	311.30	273.85	318.51	242.56	270.97

Emerging markets: IFC Investable indices

Dollar terms

Feb 19

AMERICAS

4 pm close February 22

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Financial Times Information.

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	Feb 19	Feb 18	Feb 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Industrials	9339.95	9298.63	9195.47	9643.32 (8/1/99)	7539.07 (31/8/98)	9643.32 (8/1/99)	41.22 (8/7/32)
Home Bonds	105.31†	105.31	105.34	107.17 (9/12/98)	104.42 (11/5/98)	107.17 (9/12/98)	54.99 (1/10/81)
Transport	3134.51	3123.87	3152.16	3686.02 (16/4/98)	2345.00 (8/10/98)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	295.30	296.25	281.41	328.51 (8/10/98)	282.66 (8/1/98)	328.51 (8/10/98)	10.50 (8/7/32)

DJ Ind. Day's high 9430.89(9369.48) Low 9218.13 (9145.09) (Theoretical§)
Day's high 9395.57(9308.79) Low 9287.71 (9190.34) (Actual§)

Standard and Poors	Feb 19	Feb 18	Feb 17	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Composite‡	1239.13†	1237.28	1224.03	1279.64 (29/1/99)	927.69 (31/8/98)	1279.64 (29/1/99)	4.40 (1/6/32)
Industrials¶	1492.81†	1490.11	1475.80	1551.65 (29/1/99)	1077.40 (31/8/98)	1551.65 (29/1/99)	3.52 (30/6/32)
Financial¶	132.71	132.38	130.11	147.89 (14/7/98)	93.90 (8/10/98)	147.89 (14/7/98)	7.13 (4/5/74)
Others							
NYSE Comp.	589.58	588.45	580.35	611.66 (8/1/99)	477.29 (8/10/98)	611.66 (8/1/99)	4.64 (25/4/42)
Amex Comp	692.57	690.82	688.65	763.87 (22/4/98)	563.75 (8/10/98)	763.87 (22/4/98)	524.29 (18/7/88)
NASDAQ Cmp	2283.60†	2250.55	2248.91	2510.09 (1/2/99)	1419.12 (8/10/98)	2510.09 (1/2/99)	54.87 (3/10/74)
Russell 2000	392.39	391.80	389.84	491.41 (21/4/98)	310.28 (8/10/98)	491.41 (21/4/98)	123.36 (7/12/80)

■ RATIOS	Feb 19	Feb 12	Feb 5	Year ago
Dow Jones Ind. Div. Yield	1.66	1.66	1.65	1.68
	Feb 17	Feb 10	Feb 3	Year ago
S & P Ind. Div. yield	1.18	1.15	1.10	1.40
S & P Ind. P/E ratio	37.72	38.00	38.55	27.24

US DATA

■ MARKET ACTIVITY

[illegible]

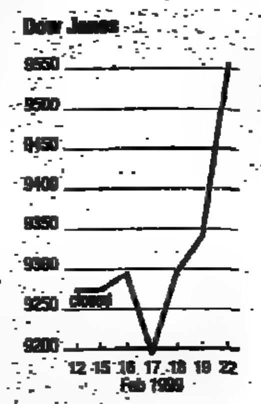
■ NYSE TRADING ACTIVITY

[illegible]

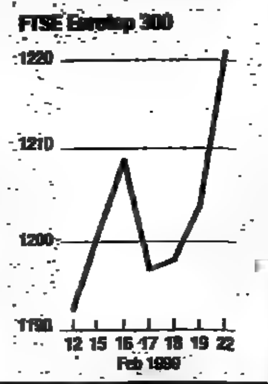
■ NASDAQ TRADING ACTIVITY

[illegible]

Dow Jones



FTSE Eurotop 300



JAPAN

	Feb 22	Feb 19	Feb 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
Nikkei 225	14256.57	14098.04	14146.79	[illegible]	[illegible]	[illegible]	85.25

Day's high: 14384.32. Day's low: 14098.70.

■ TOKYO TRADING ACTIVITY Volume : [illegible]

■ ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
NEC	16,583,000	1170	+118
ShokJt	10,777,000	116	+12
Hitachi	7,165,000	744	+12
NpStl	6,945,000	204	+2
Mityb'n	6,243,000	395	+25
BTokM	6,020,000	1400	+15
Nomura	5,548,000	894	-2
NKK	4,844,000	67	+7
NpYusn	4,409,000	418	+25
KawStl	4,345,000	180	+4

■ BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Bakkon	142	+32	+29.1
IshiwS	245	+29	+13.4
ShokJt	116	+12	+11.5
JrSeaM	161	+16	[illegible]
Downs			
AndoCs	170	-10	-5.6
AjidOp	47	-2	-4.1
Ryobi	223	-9	-3.9
MitEnS	108	-4	-3.6

FRANCE

	Feb 22	Feb 19	Feb 18	1998/99 High	1998/99 Low	Since compilation High	Since compilation Low
CAC 40	4185.88	4138.48	4039.41	4388.48	2862.54	4388.48	984.61

Day's high: 4165.86. Day's low: 4066.42.

■ PARIS TRADING ACTIVITY Volume : [illegible]

■ ACTIVE STOCKS Monday	Stocks traded	Close price	Day's change
FrTele	2,579,625	83	+0.1
Axa	1,065,040	123.5	+2.5
RhonPk	886,167	43.05	+0.05
BNP	769,172	77.5	+3
ElfAqu	761,882	93.5	-0.4
Renault	714,453	46.2	[illegible]
MichlnB	687,254	41.9	+0.4
TotalB	667,038	95	+0.1
Alctel	637,018	98.1	+1.1
Schndr	667,228	51.6	-1.35

■ BIGGEST MOVERS Monday	Close price	Day's change	Day's chge %
Ups			
Labinl	179.4	[illegible]	[illegible]
Side R	11.55	+0.74	+6.8
Lapeyr	64.5	+4	+6.6
Roudiè	12.68	+0.78	+6.6
Downs			
NrdEst	23.84	-0.91	-3.7
HavsAd	173.7	-6.3	-3.5
Selling	67	-2	-2.9
Schnar	[illegible]	-1.35	-2.5

GERMANY

[illegible]

UK

[illegible]

INDEX FUTURES

■ S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	1243.00	1274.00	+30.50	1276.50	1248.50	[illegible]	[illegible]
Jun	1255.00	1288.00	+30.80	1287.00	1253.00	[illegible]	[illegible]
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	14190.0	14320.0	+210.0	14320.0	14100.0	[illegible]	[illegible]
Jun	14110.0	14210.0	+220.0	14210.0	14040.0	[illegible]	[illegible]

Open interest figures for previous day.

■ CAC-40 [illegible]

■ DAX

■ OMX

■ EUREX

[illegible]

WORLD MARKETS AT A GLANCE

[illegible]

THE NASDAQ-AMEX MARKET GROUP

4 pm close February 22

[illegible]

AMEX

4 pm close February 22

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Bourses advance amid currency uncertainty

WORLD OVERVIEW

Another round of broad currency uncertainty in Europe was balanced yesterday by special situations and a solid start on Wall Street, with the result that stock markets moved steadily higher, *writes Jeffrey Brown.*

Asia sent out few signals. Tokyo reversed three days of decline with a gain of 1.1 per cent, but it was a half-hearted performance at best and most of the excitement was to be found in Taipei, which extended its rally to 9 per cent in two sessions.

European markets traded into further marked currency weakness from the opening bell with the euro dipping below 1.10 to the dollar at one stage, an 8 per cent decline from its peaks of early January.

Dollar strength, traditionally good for European equities, has recently tended to give way to worries that a weak euro could force the European Central Bank to halt the downtrend for interest rates.

However, Wall Street, up 100 points at the close of the European day, showed an early turn of speed and Frankfurt, which spent most of last week back-pedalling, bounced in late trading to close 1.2 per cent higher. Paris, enlivened by a stratospheric debut for the newly launched Air France shares, rose nearly 1 per cent.

Floated to retail investors at €14, the airline nudged the sound barrier at one stage, climbing to €18 before ending at a 15 per cent premium in almost 10m shares traded. The stock went limit up on several occasions as the authorities attempted to maintain an orderly market.

Trading suspensions were also a feature in Milan, where turnover in Telecom Italia, the target of an audacious takeover bid from Olivetti, rose to record levels. Telecom Italia, which has a stock market value five times that of its predator, ended with a two-session gain of 12 per cent.

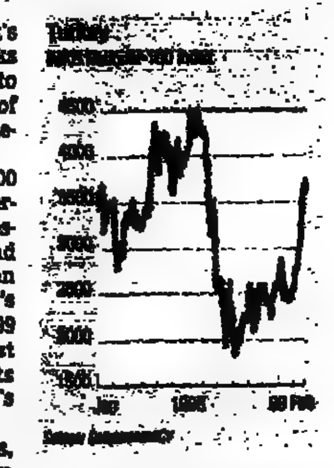
Russian shares continue to storm ahead and the latest uptick for volumes suggests that the return of the long-absent foreign investor might have begun to creep beyond the tentative stage.

However, this year's dramatic gains for the RTS-IF index, which has risen 36 per cent this month and is now almost double October's lows, shrinks to 12 per cent in dollar terms – a long way short of the 30 per cent racked up so far by emerging market leader Turkey.

The volatility of euro-zone markets has led to concentration on core stocks. According to Salomon Smith Barney, the 50 leading euro-shares sell at a premium of 7 per cent over the wider market on 1999 earnings, or 15 per cent excluding the core 50 shares from the wider market.

EMERGING MARKET FOCUS

Turkish revival fails to convince



The Turkish stock market's rally of the past two weeks seemed to some observers to carry all the hallmarks of news viewed through rose-coloured spectacles.

The IMKB National-100 index fell 2.3 per cent yesterday to 3,636.35 after 10 sessions of gains. They had taken the index more than half way back to last July's all-time high of 4,530.99 before the market lost almost 60 per cent of its value on the back of Russia's financial crisis.

A first wave of investors, mostly foreign, rushed in after the International Monetary Fund held out the promise of aid to Turkey in return for an ambitious plan, after April 18 elections, to fight double-digit inflation.

"The first hint the IMF could come up with an agreement involving financial aid changed the risk perception of the market," says Murat Gulkan, research head at Bender Securities.

Last week's capture of Abdullah Ocalan, head of the PKK Kurdish guerrilla group, triggered more buying, this time led by Turks.

Here several possible benefits are listed by analysts: the resulting popularity of Bülent Ecevit, the caretaker prime minister, could ensure the elections deliver a victory for his and other mainstream secularist parties rather than the Islamist Virtue party, whose return to office is opposed by the country's military.

Second, an estimated $7bn spent annually combating PKK insurgency in the south-east could finally be put to better use. The end of the conflict could also fix Turkey's poor human rights record and improve relations with the European Union.

These virtuous circles depend however on some big "ifs", analysts concede. Mr Ecevit may not sustain his new-found popularity until April. Even a coalition of mainstream political parties might not have the stomach for bitter IMF medicine unless desperate for Fund support.

Also unclear is whether any government will have the strength to take bold political action to undercut support for the PKK.

"In Turkish markets, people are particularly prone to over-react," says Süleyman Tombul, head of international capital markets at General Finance Securities.

He sees a parallel between this month's exuberance and the bearishness which since last year's emerging markets crisis has driven prices down to levels similar to those seen at the height of Turkey's financial crisis in 1994.

"It's the same with the news now: all we have are a couple of 'Hail Marys' and the statement by the International Monetary Fund."

In Turkey's favour, however, is the fact that its stocks have been among the most under-valued among emerging markets.

"With these low valuations everybody is looking for a reason to buy," says Jurgen Odenius, emerging markets strategist at Warburg Dillon Read, who points out that Russia is "the only other country with similarly low valuations" although "the potential for good news in Turkey is much higher".

Leyla Boulton

High-techs jump as Dow crosses 9,400

AMERICAS

US stocks rallied in early trading with sharp gains in transport and high-tech shares helping to lift the Dow Jones Industrial Average back above the 9,400 level, *writes John Labate in New York.*

"Stocks were strong in Europe so the tone of the day was really set before the [US] opening," said Dan Mathisson, head stock trader at D.E. Shaw Securities. "We're seeing a pretty good day all around."

The breadth of yesterday's buying remained bullish into the afternoon session, with advancing shares leading declining ones by 2 to 1.

By early afternoon, the Dow was 1.22 per cent or 114.10 stronger at 9,454.05. The Standard & Poor's 500 index was also on the upswing, gaining 18.39 to 1,257.61.

After a rough time last week, technology and small company shares also participated in the upward move. The Nasdaq composite index gained 27.75 or 1.22 per cent to 2,311.35 while the Russell 2000 index of small-cap stocks was up 4.67 to 396.97.

In the Dow, computer maker Hewlett-Packard rose more than 4 per cent at $71⅝ and financial services provider American Express was $4⅛ higher at $107⅝. Among the decliners Coca-Cola was off $1 to $64⅝.

Online trading company shares surged on speculation that Goldman Sachs could consider a takeover to enter the internet investing marketplace. E*Trade rose 15 per cent to $46¾ and J.B. Oxford Holdings rose $2 or 25 per cent to $10. Other internet shares were strongly higher, with America Online gaining $7⅛ to $165.

Mirage Resorts rose $1¼ to $19⅞ after BT Alex Brown raised its rating to "buy" from "market perform".

Delta Air Lines gained $1⅛ to $56⅝ after Donaldson, Lufkin & Jenrette rated the shares a "buy". Other transport shares were equally strong with UAL, parent of United Airlines, up $1⅝ to $61¼.

US Treasury prices were higher by midday in advance of Federal Reserve chairman Alan Greenspan's two-day Humphrey Hawkins testimony before Congress. The benchmark 30-year bond was up ⅜ to 98⅛, sending the yield lower to 5.364 per cent.

TORONTO was higher at midsession as strong utility and industrial products stocks offset continued weakness in the resource sector.

The TSE 300 composite index was 62.76 higher by midday at 6,472.30 in volume of almost 34m shares.

In the utilities sector, Teleglobe put on C$3.25 to C$45.90 after CS First Boston upgraded the stock to a buy from hold. BCE climbed C$1.90 to C$48.90.

Tempering the gains was the continued slump in resource-based stocks. In the metals group, Noranda came under pressure early in the session although by midsession, it had picked up from a low of C$16.40 to trade 5 cents ahead on the day at C$16.65.

Banks stayed in demand. Royal Bank of Canada improved 65 cents to C$79.15 and Bank of Nova Scotia 35 cents to C$32.55. Bank of Montreal bounced C$1.60 to C$66.00.

Wall Street and perky peso lift Mexico City

MEXICO CITY continued to rally in early trading, helped by the good initial tone on Wall Street and a solid start in the foreign exchanges for the peso.

Brokers said the peso was perky ahead of the latest trade figures, widely expected to show a significant reduction in the deficit for January. The upbeat currency mood spilled over into equities and at midsession the benchmark IPC index was up 46.56 or 1.1 per cent at 4,345.88.

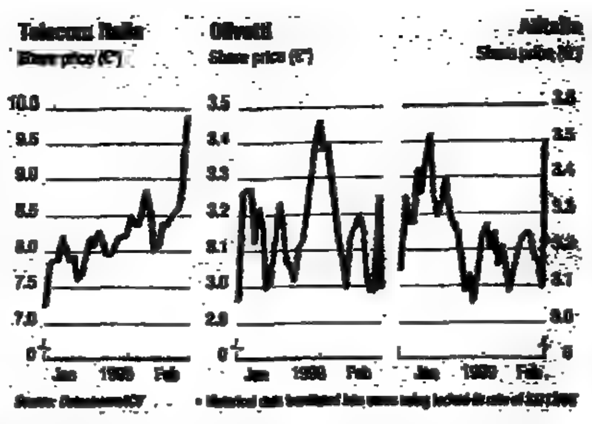
Among leading stocks, Telmex improved 55 centavos to 28.80 pesos in good volumes.

SAO PAULO pushed higher to extend its recent rally, but brokers described trading as subdued ahead of key political meetings scheduled for later this week. The Bovespa index was up 52 at 9,065 at midsession.

Telecoms hit right numbers

EUROPE

Olivetti's bold $58bn bid for its bigger rival, Telecom Italia, the former state monopoly, set bells ringing in European telecoms.



In Italy, Telecom Italia initially soared more than 11 per cent as investors ramped the shares up above the €10 offered by Olivetti. By the close, Telecom Italia was 82 cents higher at €9.86 while its subsidiary, Telecom Italia Mobile, closed 37 cents ahead at €6.13, off a day's high of €6.32. Goldman Sachs, which raised its recommendation on Telecom Italia, also upped its price target to €12.

Olivetti ended an unusually strong run for a takeover predator with a slide of 25 cents to €2.97 in huge volume of 163m shares as investors awaited details of its planned capital increase.

The FTSE Eurotop 300 index rose 17.03 or 1.41 per cent to 1,221.53. See Euro Prices page.

Germany's Mannesmann rose €4.10 to €124.70 after the group said on Sunday it had agreed to buy stakes held by Olivetti in two Italian telecoms groups if the bid for Telecom Italia were successful.

Spain's Telefónica, seen as a good acquisition target because it is fully floated but undervalued, put on €2.17 to €41.75. Portugal's Telecom, another target for consolidation, was 81 cents higher at €45.51.

KPN Telecom in the Netherlands rose €2.55 to €45 with merger speculation stirred by comments by Wim Dik, chairman, that implied the company was too small to survive alone.

Elsewhere, telecom companies not regarded as takeover candidates overcame early weakness. Deutsche Telekom put on 36 cents to €39.50 and France Telecom collected 10 cents to €83.

Telecoms aside, MILAN saw a rapid take-off by Alitalia after reports the airline and its partner, KLM, were in talks with Air France about an alliance. The shares closed up 41 cents at a day's high of €3.50.

Shares in Lazio were suspended for excessive gains after the team moved into first place in the Serie A soccer championship. The shares hit an indicative price of €8.10 against a closing price of €4.65 on Friday.

The broad market also rallied strongly, taking the Mibtel index up 591 or 2.5 per cent to 24,147.

FRANKFURT rose 64.44 to 4,887.70 on the Xetra Dax index after a late surge on the back of early gains on Wall Street.

Allianz gained €2.40 to €272.50 ahead of tomorrow's results statement reports tomorrow and RWE, which puts out annual figures today, added 83 cents to €38.80. Reporting on Thursday, HypoVereinsbank eased 51 cents to €51.84.

Metro put out a statement denying it planned to bid for Carrefour of France and gained €3.81 to €67.60.

PARIS staged a late rally, ending 0.9 per cent higher after spending the day in negative territory. The CAC-40, up 36.38 to 4,165.86, was rescued by Air France's soaring debut.

Shares in the partly privatised airline, representing 20.7 per cent of the company's equity, closed at a sharp premium to the €14 offering price for individual investors – €14.20 for institutional investors – ending at €16.10.

Trading was volatile and the stock repeatedly suspended after hitting its higher and lower limits.

Demand for Air France shares had piled up in the morning, with the grey market briefly posting a 3,000 per cent premium minutes before the listing began.

There was little else for investors to chew on in an otherwise dull market, despite isolated performances by BNP, up €3 to €77.50, Air Liquide, €8 higher to €143, and Legrand, up €9 to €199.

AMSTERDAM advanced 10.68 to 528.31 on the AEX index with strong gains for Philips and Unilever supplying most of the upward momentum.

In financials, ABN Amro hardened 15 cents to €18.30 ahead of a results statement on Thursday, but Fortis fell €1.70 to €34.90. Chemical leader Akzo Nobel shed 10 cents to €35.90 after full-year results.

Unilever jumped €3.20 or 4.9 per cent to €68.30 on widespread talk of a share buy-back. The foods and detergents giant unveils annual earnings today and many predict a buy-back will be part of the package.

Philips rose €1.40 to €65.20 and KLM, helped by an upgrade at Salomon Smith Barney, added 85 cents at €24.90.

ZURICH was higher with much of the action found in the financials. The SMI index closed 134.0 or 1.9 per cent higher at 7,076.7.

Swiss Life jumped SFr16 to SFr956 on news it was to take over Gottard Bank, now controlled by Sumitomo Bank. Gottard put on SFr25 to SFr1,367.

UBS rose SFr9 to SFr456 although the bank denied a report it planned to integrate its global operations in a move that would limit the relative autonomy of its investment banking and asset management divisions.

STOCKHOLM rose 1.8 per cent, with gains in blue-chip stocks lifting the general index 60.75 to 3,372.48.

Insurance heavyweight Skandia added SKr5 to SKr140 on news that it would merge its non-life business with that of Norway's Storebrand.

Scania plunged SKr10.50 to SKr203 after Volvo broke off negotiations with Scania's main shareholder, saying it was no longer considering taking over the truck maker.

Written and edited by Michael Morgan, Bertrand Benoit, Peter Hall and Paul Grogan

Jo'burg shrugs off rand ills

SOUTH AFRICA

Johannesburg edged higher in spite of an ailing rand and data showing the economy technically in recession.

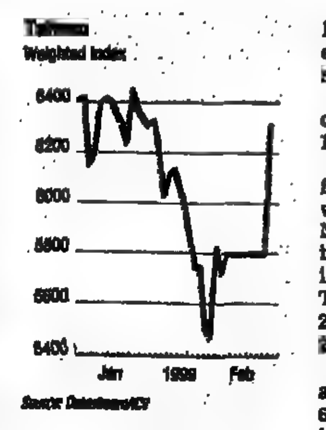
The overall index put on 20.0 to 5,902.2 and industrials rose 18.6 to 6,711.1. Golds, however, slipped 18.6 or 2.1 per cent to 874.3 in line with a weaker bullion price.

Platinum stocks had a good day on perceptions that the metal was in short supply globally and ahead of expected robust results from Amplats.

Exporters cheered by weak yen

ASIA PACIFIC

The yen's continuing slide against the dollar buoyed TOKYO yesterday, *writes Paul Abrahams.*



The benchmark Nikkei 225 average rose 158.63 or 1.13 per cent to 14,256.67 as the yen fell to Y121.7 against the dollar and the yield on the benchmark Japanese long-bond remained steady at 1.735 per cent. The Nikkei 225 traded between 14,314 and 14,096.

The rise was broad-based. The more representative weighted Nikkei 300 index rose 3.11 or 1.4 per cent to 221.7 while the Topix index of all first-section shares closed 14.4 or 1.3 per cent higher at 1,108.91. The momentum was up, with 840 stocks higher, 296 down and 157 unchanged.

Companies heavily dependent on exports were boosted by the yen's weakness. The shipping sector jumped 5.7 per cent, with Nippon Yusen up Y25 or 6.3 per cent in heavy volumes. Mitsui OSK gained Y8 or 4.2 per cent at Y196 and Kawasaki Kisen rose Y12 or 7.3 per cent at Y175.

NEC, which announced a profits warning, a change in chief executive and a restructuring programme on Friday, was the most traded stock yesterday, up Y116 or nearly 10 per cent at Y1,170. Toshiba, which has been among the most aggressive of the Japanese electrical conglomerates in restructuring, rose Y16 at Y730, while Hitachi gained Y12 at Y744.

Shares in Japan Seiyu, the retailer, rose sharply in late trading on a Nikkei wire report that the group would announce a profits revision. The shares gained 5.4 per cent or Y21 to Y410.

The group revealed after the market had closed that it would sell a stake in Ryohin Keikaku to compensate for extraordinary losses at other subsidiaries.

In Osaka, the OSE index closed up 166 points at 15,074.

WELLINGTON pushed firmly ahead in good volume with NZ Telecom surging to NZ$10 at one stage, another intra-day record, before closing all square at NZ$9.80. The 40 capital index ended 26.46 or 1.2 per cent higher at 2,251.28.

TAIPEI continued to advance, adding 241.30 to 6,313.63 on the weighted index to extend its rally since Friday's round of initiatives aimed at boosting investor sentiment to almost 9 per cent in two sessions.

The financial sector, at which the government measures were largely aimed, jumped 6.8 per cent with a number of individual stocks going limit up. Among techs, United Microelectronics rose 30 cents at T$46.3.

SEOUL closed 2.6 per cent lower as foreign investors, unnerved by the weakness of the yen, turned net sellers. The composite index finished at 508.49, down 13.69.

Foreigners were net sellers of Won22.2bn worth of stocks, while institutions bought Won11.8bn and retail investors purchased Won100m.

Large-cap exporters and securities were hardest hit by the yen's decline, with the securities sub-index retreating nearly 7 per cent. Seoul Securities dropped Won1,500 to Won12,600 while Hyundai Securities fell Won1,000 to Won15,500 and LG Securities declined Won900 to Won11,900.

Seoulbank fell Won455 to Won2,595 on profit-taking following news that HSBC Holdings would take over the bank.

SINGAPORE rose 1.9 per cent, lifted by institutional buying in blue chips. The placing of 10m to 20m European-style warrants on Singapore banks by Deutsche Bank also helped sustain last week's momentum.

The Straits Times index closed 25.87 higher at 1,400.18, with SingTel accounting for more than half the gains. The stock advanced 14 cents or 6.1 per cent to S$2.44.

Among banks, OCBC rose 20 cents to S$7.85, UOB gained 15 cents to S$7.20, OUB put on 8 cents to S$4.76, and DBS closed 20 cents higher to S$8.55.

Power passes back from the barracks

Africa's most populous state faces daunting obstacles as it prepares for democracy, write Michael Holman and William Wallis

Nearly 40 years after it won independence from Britain, Nigeria is attempting to make a fresh start against formidable odds.

The economy is in deep trouble, and the federal constitution is under strain; the army is embroiled in a civil war abroad, while at home it is grappling with rebellious communities in the vital oil-producing Niger delta region.

But indefatigable in their search for democracy, and driven by their loathing of military rule, Nigerians are determined to make a success of Africa's most important political transition since the fall of apartheid.

Provided the military government of General Abdulsalami Abubakar keeps its pledge, and as long as the electoral machinery can cope with the count, this week's presidential poll will mark the penultimate step in the phased return to civilian rule of Africa's most populous state.

Three months later – long enough to allow the courts to deal with litigious losers while the president-elect chooses his cabinet – Gen Abubakar will on May 29 preside over the inauguration of Nigeria's first civilian leader since President Shehu Shagari was overthrown at the end of 1983.

For Nigerians, under the soldiers for all but 10 years of their post-independence history, and grown sceptical after many broken military promises and false starts, getting this far will in itself be remarkable – although they also know that the hardest part is yet to come.

Less than a year ago the country seemed set to remain in the grips of a regime that was loathed at home and treated as a pariah abroad. Then fate intervened: General Sani Abacha, as corrupt and brutal a military leader as Nigeria has known, died of a heart attack in June last year.

The atmosphere changed overnight. Within days political prisoners were released by his mild-mannered successor. He went on to scrap an election that would probably have seen General Abacha exchange his uniform for a suit, lift the ban on political parties, and set August as the start date for a new timetable for civilian rule.

It has been an ambitious target, allowing the authorities barely six months to oversee the compilation of an electoral register for a population of 121m, supervise the creation of political parties from scratch, and monitor local government, state and national elections.

Not surprisingly, there have been some serious flaws in the process. The voters' roll is inflated by millions; the constitution, reviewed in 1995, has not been finalised; the presidential candidates were selected only 10 days before the poll; and much of the campaigning has been marked by the same tactics that have given politics a bad name.

Votes and delegates have been bought by all three parties – People's Democratic Party (PDP), All Peoples' Party (APP), and the Alliance for Democracy (AD). Nor is there much evidence of a new generation of Nigerian politicians, while support for the parties is largely based on ethnic loyalties and allegiances.

Consolidating this uncertain foundation for democracy would be demanding at the best of times. But since civilians last held office, the infrastructure has steadily deteriorated, the civil service has become more inefficient, and the economy is in crisis.

Although its structure is unchanged – Nigeria's exports of 1.9m barrels per day of oil still account for 95 per cent of foreign exchange earnings and 80 per cent of government revenue – the contrast in fortunes is stark.

In 1980, the first full year in office for President Shagari, oil was $40 a barrel, exports were worth $25bn, and the naira was nearly on a par with the pound.

Today the oil price is around $10 a barrel, its lowest level for 12 years. Export earnings last year fell to $9.3bn, the naira is worth less than a penny, per capita income of Nigeria's estimated 121m people has fallen below $250 and external debt has more than doubled to $29bn.

In January, the military government took the first step towards ending a 10-year rift with the IMF by abolishing the dual exchange rate. It followed this up by ending the subsidy of local fuel, and promising a faster pace on privatisation.

Provided the incoming government sticks to the terms of the IMF agreement, modest relief is in sight: debt can be rescheduled, and a further IMF agreement on a three-year $1bn loan is likely.

But while this will help close a 1999 financing gap, estimated by finance minister Ismaila Usman at $1.5bn, painful decisions lie ahead. Most economists expect growing pressure on the exchange rate, raising the prospect that the new government will have to devalue the naira yet again.

The civilians will have other nettles to grasp. Not since the Biafra war of the late 1960s has the federation been under such strain.

In the vanguard of calls for devolution of greater power to the regions are the people of the Niger delta, where angry young protestors, demanding a greater share of the oil wealth the region produces, have forced a 200,000bpd cut in output.

If the government can implement a constitutional provision that allows for an increase of the producing regions' share of oil revenues from the existing level of 3 per cent to 13 per cent, it would defuse tension.

But pressure for constitutional change comes from another formidable quarter – the Yorubas, the dominant ethnic group in the cocoa-growing south-west, heart of the industrial sector, some of whom yearn for an autonomous or independent state.

Early disengagement from Sierra Leone, where some 15,000 Nigerian troops provide the bulk of the West African peace-keeping force, is a likely solution to an unpopular commitment.

But it will also focus attention on a critical issue: how to convince the military, the main beneficiaries of the billions of dollars of oil earnings that have been diverted over the years, to stay in their barracks.

If any reminder of Nigeria's potential were needed, it came earlier this month. Royal Dutch/Shell revealed that it was in talks with the government on an $8.5bn plan that would generate net income for Nigeria of some $20bn over the next 25 years. It should be good news. But prospects of a bonanza could sap civilian resolve to keep to the terms of the IMF agreement.

One condition in particular goes to the heart of Nigeria's predicament: the IMF's insistence on public accounting and independent monitoring of the state-owned Nigerian National Petroleum Corporation (NNPC) and the central bank.

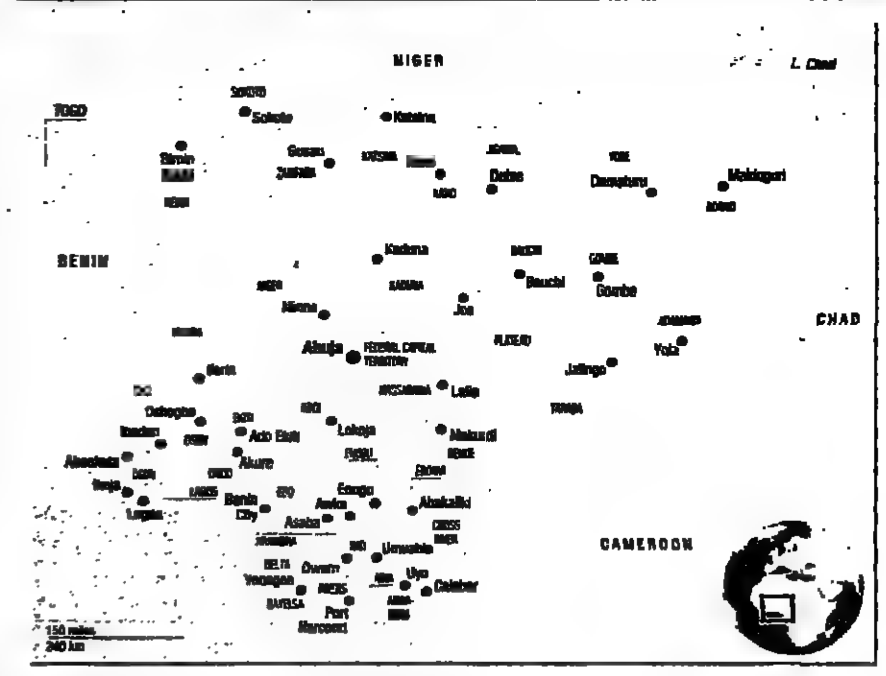
This poses a formidable challenge, for there is no precedent in Africa for a successful transition to democracy while implementing the reforms that destroy the patronage on which the political systems depend.

The next three months may yet be crucial in determining whether General Abubakar goes down in history as the man who made a change possible, or the man who handed his successors a poisoned chalice.

IN THIS SURVEY

Production editor: Roy Terry
Assistant: Moffat Ekoriko

FT file | Constitution | Economic summary

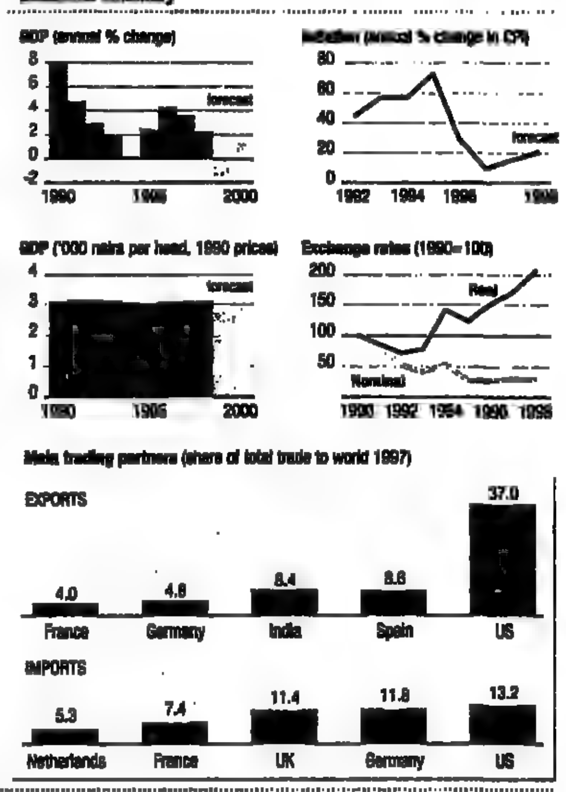


- Area: 923,773 sq km
- Languages: English (official) and others
- Currency: Naira
- Population: 121.8 million (1998 est)
- Main towns & population (1998 est)
  Abuja (capital) 0.3m
  Lagos 6.9m

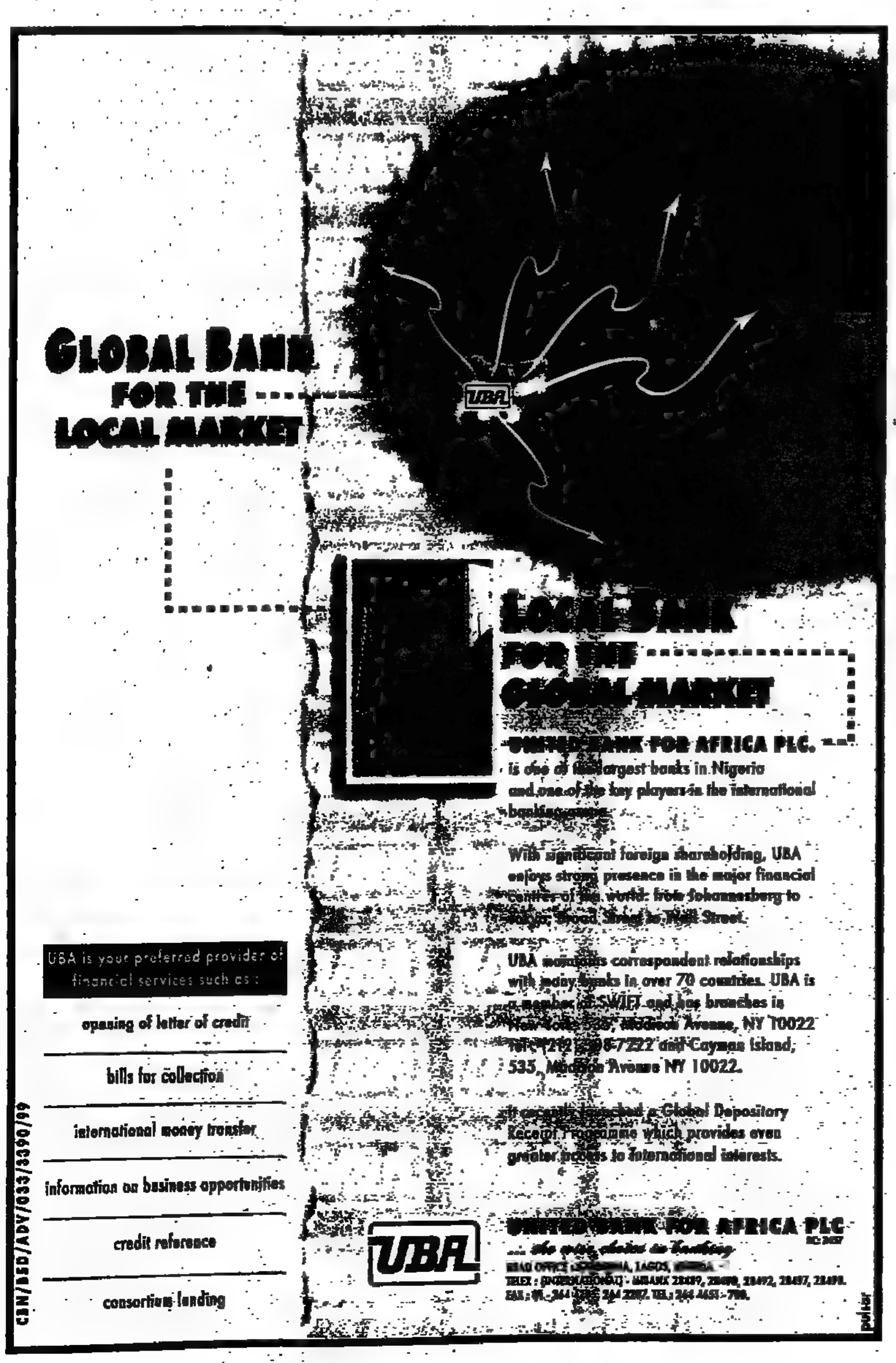
Constitution

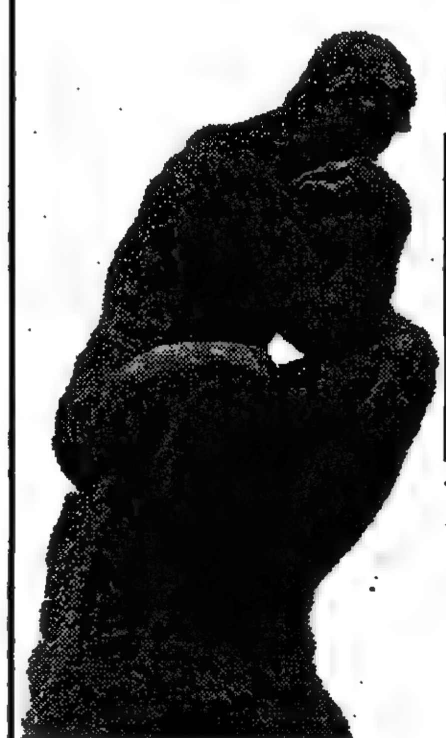
- Official name
  Federal Republic of Nigeria
- Form of state
  Federal republic, comprising 36 states and the Federal Capital Territory (FCT, Abuja)
- Legal system
  Based on English common law
- National legislature
  Federal legislation is by decree of the Provisional Ruling Council (PRC)
- National elections
  State assembly and gubernatorial elections held January 1999; National Assembly and presidential elections due February 1999
- Head of state
  General Abdulsalami Abubakar, head of the PRC and the government; assumed power in June 1998
- Main political parties
  People's Democratic Party (PDP)
  All Peoples' Party (APP)
  Alliance for Democracy (AD)

Economic summary



Source: IMF; Federal Office of Statistics; Datastream/ICV and FT estimates





DEBT by Tony Hawkins

Caught in a two-way squeeze

Escalating debt arrears at a time of falling oil prices may constrain early economic growth in the next century

With the steep fall in the oil price and the prospect of weak prices over the next few years, Nigeria's foreign debt crisis has assumed new, more serious, dimensions. The country is now caught in a classic two-way squeeze of tumbling oil receipts and escalating debt arrears. Last year's scheduled debt-service was $4.4 billion, about half of estimated oil export earnings, yet the 1999 budget provides just $1.7bn for servicing foreign debt, implying that some $2.5bn in new arrears – on top of the $15 billion already accumulated – will be incurred.

This year, oil earnings will fall further, underscoring the need for an early debt agreement with the Paris Club of official creditors to whom Nigeria owes about $21bn, more than $16bn of which represents arrears.

Just how sympathetic the OECD lenders will be depends first and foremost on their view of the sustainability of the incoming civilian administration's economic programme. Nothing will move until Nigeria has an IMF Enhanced Structural Adjustment Facility (Esaf) loan in place, but with the international community apparently willing to treat Nigeria as a special case, debt relief could become available this year.

In Nigeria's favour is the fact that some governments, keen to secure export orders in the dog-eat-dog world of official export credits, will push for rescheduling. Foreign suppliers will be that much keener, too, as Nigeria accelerates its privatisation programme, thereby opening the way for substantial new investment in telecoms, electricity, transport and oil.

As well as the usual IMF programme, without which there can be no Paris Club rescheduling, two other demands seem likely. The Club will want Abuja to intensify its efforts to claw back the many billions of dollars stolen by the military – some $800m has already been reclaimed. It will also insist that the new government pursues investment-friendly policies designed not just to attract new foreign capital but to induce Nigerians with funds abroad to repatriate flight capital.

No-one is sure precisely how large Nigeria's foreign debt really is. Arrears and late interest may not have been fully taken into account and the "fluidity of recent revisions suggests that the figures have not yet settled down", says an IMF report. Accordingly, some economists believe that the official $28.7bn figure for December 1997 is several billion short – a view supported by recent estimates of arrears of close on $18bn instead of the $15bn estimate for December 1997.

The bulk of the debt – commercial borrowings guaranteed by OECD export credit agencies, especially the UK ($5bn), Germany and Japan – accumulated during the 1980s. Total debt peaked at around $34bn in 1990, when arrears totalled only $3bn. Some commercial debt was restructured in 1992 and

Nigeria's foreign debt
December 1997

($bn)	Total	Arrears
Paris Club	20.6	15.0
World Bank	2.8	-
ADB	1.3	-
Commercial	3.6	-
Other	0.3	-
Total	28.6	15.0

Source: IMF

more than $1bn has been cancelled under Nigeria's debt conversion programme during the 1990s.

There has been very little new borrowing recently and the growth in debt has been the result of accumulating arrears. Last year's debt-service to the Paris Club was estimated at $3.2bn, with another $860m earmarked for multilateral lenders – chiefly the World Bank ($558m) and the African Development Bank ($240m). Payments to private sector lenders are some $300m. Given that multilateral lending cannot be rescheduled, Nigeria would still be left with debt-service payments of more than $1.5bn a year (on the 1998 numbers).

And even if a generous debt deal can be reached, Nigeria would still have to pay more than the $1.7bn being provided at a time when oil exports are unlikely to be much above half of the $15bn a year achieved in 1996/97. Not only that, but with new borrowings – the 1999 budget lifts the embargo on offshore loans – the debt problem seems unlikely to be solved in the medium term. In the absence of absolute debt forgiveness – foreign debt will remain a serious constraint on economic growth.

THE ECONOMY by Tony Hawkins

Long, long road to recovery

The economy, plagued by years of mismanagement, has no quick-fix solution but needs structural change

Although the transition to civilian rule is on course, the odds are heavily stacked against a successful economic transition. This is despite encouraging prospects for substantial quickly disbursed support and debt relief from the Bretton Woods institutions and the donor community.

But caution, perhaps even pessimism, over Nigeria's medium-term economic prospects is necessary, largely because the fundamentals are so horrendous.

The combination of the slump in oil prices, disruption of production in the Delta region, a $29bn foreign debt, a ramshackle infrastructure and weak institutional capacity has debilitated the economy.

The country, which needs to create 1m new jobs annually, has been creating a tiny fraction of that and,as a result, some two-thirds of the population live in poverty.

It goes without saying that no international lending and debt rescheduling programme is going to transform this situation in the short to medium term, especially given gloomy projections for energy prices over the next 10 years.

Optimists pin their hopes on the Vision 2010 programme drawn up in the mid-90s, which the civilian politicians are committed to implementing.

A valuable document though it undoubtedly is, Vision 2010 is very much a fantasy wish list – some of it pie in the sky, such as its growth projections for manufacturing industry. It is essentially a road map setting out medium-term goals and the necessary strategies to attain them.

But African experience is clear on one issue – setting out policies in a vision document is the easy part. It is policy implementation and the difficulties encountered in securing the necessary supply-side response that bedevils so many of the best-laid plans.

The immediate challenges facing the new government are formidable. It will inherit sizeable budget (8 per cent of GDP) and balance-of-payments deficits (14 per cent of GDP); inflation, estimated at 16 per cent at the end of last year is forecast to rise to 20 per cent or even more. To counter this, the central bank is committed to holding down money supply growth, leading to increased interest rates, thereby further constraining growth which is very unlikely to reach the 3 per cent target set out in the 1999 budget. Indeed, the IMF expects GDP to fall 1.6 per cent this year after last year's modest growth of 2.3 per cent.

Exports are down but imports are rising — Panos

Caution over Nigeria's medium-term economic prospects is necessary

With oil revenues slipping further in 1999 from last year's average of $12 a barrel while volumes are likely to be down some 12 per cent, the already-overvalued naira looks set to depreciate. It needs to do so. The real exchange rate, adjusted for inflation, has more than doubled since 1990, despite currency devaluation of some 75 per cent. This means that the naira has not fallen enough to compensate for the gap between Nigeria's high inflation of 33 per cent a year since 1994. The result – Nigerian exports have become increasingly uncompetitive while imports are encouraged.

Exports this year at almost $8bn will be less than half their 1996 levels of more than $16bn, while 1998's trade surplus of $7.9bn will become a deficit of $1.5bn in 1999.

This sea change has yet to be reflected in the exchange rate, which depreciated only 4 per cent during 1998, shrugging off the collapse in the oil price. While the reserves – $7.1bn at the end of last year – will be used to sustain the currency, it is difficult to see what will be gained from propping up an exchange rate so obviously out of kilter. Especially since, in so doing, the authorities will be forced to further constrain output growth by raising interest rates and tightening their monetary stance.

The combination of a new government anxious to win popular support by kick-starting the economy and a central bank, charged with holding the exchange rate and slowing inflation, will severely test the latter's new-found autonomy. Yet, given Nigeria's recent history of deepening poverty, partly caused by under-spending on social services and infrastructure, the case for heavy public spending, especially on poverty alleviation, but also on infrastructural rehabilitation, is unassailable, all the more so in a year in which real incomes are expected to fall 4.5 per cent. Accordingly, it will come as no surprise if public spending, money supply growth and inflation targets are missed.

On the external front, two main problems must be tackled. Exports must be diversified to reduce excessive dependence on oil and gas, while, if GDP growth targets are to be met, net capital outflows must be reversed. During the 1990s, Nigeria has been a net capital exporter to the tune of some $2.5bn a year, with a forecast $2.5bn of an overall payments deficit this year, assuming no debt relief, of almost $4bn. These outflows and the build-up of more than $7bn in reserves were financed by accumulating an estimated $18bn in debt arrears.

The position would have been far worse had it not been for the substantial repatriation by Nigerians of funds estimated at $1.8bn annually from abroad. Such capital exports are incompatible with the Asian Tiger growth rates of 10 per cent a year targeted in Vision 2010, which would imply unattainable investment ratios in the region of 50 per cent of GDP. While the suggested rescheduling of some $19bn of Nigerian debt this year at non-concessional rates would ease the situation, it falls a long way short of the 50 per cent debt write-off that some optimistic Nigerian bankers expect.

Foreign direct investment, more than half of it targeting non-oil activity, has been running at $1.3bn a year. To reach Vision 2010 growth targets, much more foreign direct investment capital and foreign borrowing will be needed, some of which will come from privatisation. In a country where the modern watchwords of globalisation and competitiveness are largely confined to the boardrooms of the multinationals, it is hard to see the structural change so desperately needed, unless agriculture takes off.

With oil prices in the doldrums and likely to remain so, achieving export-led growth will require rapid growth in agriculture, which accounts for 30 per cent of GDP.

At the heart of the challenge is turning Nigeria into a country where it becomes far easier to do business than at present.

The fuel supply crisis of the past two years, lengthy delays at the ports, the fact that there is no effective rail system to move bulk traffic, and declining real disposable incomes make it well-nigh impossible to exploit scale economies. All of these underline the reality that the reforms needed are in the critical mass, across-the-board category.

It is not a quick-fix situation, though much is expected of privatisation, which if carried out transparently should pay significant dividends over the medium term.

Nigeria: balance of payments
($bn)

	1997	1998*	1999*
Exports	15.2	8.7	7.9
Imports	9.3	9.8	9.4
Trade balance	5.9	-0.1	-1.5
Net services	-4.6	-4.0	-5.0
Transfers	1.5	1.8	2.0
Current account	1.9	-3.1	-4.5
Net capital	-1.7	0	0.5
Overall balance	-0.2	-3.1	-4.0

Sources: CBN; IMF; FT estimates — *Forecast

PRIVATISATION by Tony Hawkins

Stalled programme is back on track

Nigerians are now convinced that private owners, even foreigners, would improve the service from the utilities

Nigeria's long-stalled privatisation programme is back on the road – this time with widespread public support. Gone are the days when Nigerians opposed selling the much-tarnished family silver. Decades of frustration and discomfort at the hands of state-owned utilities such as the inefficient Nitel telecommunications company, the Nigeria Electric Power Authority – a world leader in black-outs – and the state-run petroleum refineries, responsible for the fuel shortages of recent years, have convinced Nigerians that private owners, even foreigners, would do a better job.

All of which is good news for the reform lobby. The mood shift among the Nigerian public means that the new government will be free to accelerate the programme which a decade ago would have been enormously controversial. Despite this, expectations are almost certainly overblown. Last month, the government promised to establish by the end of January "an institutional arrangement" to achieve its privatisation goals. If this target was met, it was not publicised.

The belief that debt-ridden utilities, which have not produced a set of accounts for years, can be privatised within months is unrealistic. The Bureau for Public Enterprises, which had hoped to complete a number of "straightforward" sales by the end of the first quarter of 1999, now admits that this will not be possible. The plan is to sell off, via the Nigeria Stock Exchange, government holdings in mostly-listed companies in financial services, petroleum marketing and distribution, cement and fertilizer.

Insiders insist that the hold-up is more bureaucratic than political, with General Abubakar's mind being on more pressing issues such as the war in Sierra Leone and the politics of transition. Others accuse the military of intervening to slow a process which created a ripple of excitement late last year when the BPE advertised for expressions of interest by potential strategic partners and co-investors, privatisation advisers and stockbrokers. The hope was that the advisers would be in place early in the new year, but by late January the process was still caught up in a legal wrangle, which delayed the letters of appointment to the selected advisers.

Some 37 groups put in for the job as advisers, including big names with privatisation experience in Europe and elsewhere. By late January, there had been almost 50 "bids" by mostly offshore companies interested in buying a strategic stake in the utilities on offer. Predictably enough, the greatest enthusiasm came from the Nigerian financial sector with more than 1,000 applications to secure a piece of the action in the placing and sale of shares.

If responses turn out to be "less than adequate" says Bernard Verr, BPE director-general, the international advisers will provide "another window" to attract foreign participants. The "whole essence" he says, is to attract foreign participation by making the conditions for strategic partners "as favourable as possible". An immediate possible snag is the current plan for the Federal government to retain 40 per cent of the equity in undertakings such as Nitel or the NEPA units that will be offered for sale, with the strategic partner taking 40 per cent as well as management control.

Given the history of Nigeria's oil industry, where the operators have long been unhappy with their minority stakes, it would be no surprise if buyers were to insist on a majority holding. Ismaila Usman, finance minister, says the government has an open mind on such issues, adding that there are no plans to resort to "golden shares" to entrench state control.

According to Mr Verr, the 40 per cent government stake is "not sacrosanct. Ownership per se means nothing". The balance of 20 per cent will be sold off in tranches to the investing public, though foreign portfolio investors will almost certainly be able to participate. The longer-term plan is to sell off the state's remaining 40 per cent in tranches, the logic being that once the new owners have turned the newly privatised companies around, the revenues from share sales will be substantially greater than if the equity were to be sold now.

Nitel, which could well be the first imnportant utility to be sold, will be a relatively straightforward transaction, though due diligence studies are likely to take a long time. NEPA, however, will not. Under consideration are plans to break the electricity utility into three divisions – generation, transmission and distribution, with a possible further breakdown between thermal and hydro-power stations and between different geographical regions.

The programme now getting under way marks a fresh start to public sector reform first launched in the second half of the 1980s. Between 1988 and 1995, since when there has been precious little privatisation activity, some 81 parastatals were privatised for $207m, according to World Bank data. No one has a clear idea of how long the process will take, though officials stress getting it right is more important than quick fixes.

Three concerns are uppermost. First, if the bids are widely-perceived to be inadequate, which is all too possible given the quality of the assets on the market, opposition to the process could quickly re-emerge. This is the more likely where money has gone into rehabilitating assets such as the recently-reopened Kaduna refinery. Second, there is the danger that the process will be seen as opaque, enriching a handful of politicians and bureaucrats, and third, that while commercially-provided services will certainly be more efficient, they will also be so much more costly that the poor risk being left out in the cold.

Ambitious timetable for privatisation

- Bring Nafcon, the state-owned fertilizer company, Nigerian Airways and the newly-rehabilitated Kaduna refinery to the "point-of-sale" by the end of May.
- Sell off remaining government and parastatal holdings in five banks and in most cement and oil marketing companies already listed on the Nigerian Stock Exchange by the end of May.
- Partial privatisation of the other three refineries in the second half of 1999.
- Bring the state-owned telecommunications group, Nitel, to point-of-sale by the end of September
- Launch a study for the restructuring of the electricity utility, Nepa, by the end of March and finalise a decision on how it should be restructured and privatised by the end of September.

BANKING by Tony Hawkins

Refined for the challenge ahead

The Nigerian banking sector is emerging from its worst crisis and is braced for a more competitive future

With the number of banks down 40 per cent from the 120 reached in the mid-1990s, bankers believe that the worst of the country's financial services crisis is over. Even so, more banks will go to the wall later this year following the Central Bank of Nigeria's announcement that 17 of the 74 banks had failed to meet the deadline for increasing their capital to N500m ($5.75m) by the end of 1998.

They have been given until the end of the first quarter to recapitalise, merge or be taken over, failing which they will be closed. Mr Paul Ogwuma, governor of the CBN, says that perhaps 10 of the 17 will be closed, leaving Nigeria with around 70 operating banks, amid reports that more will open soon.

Highest profile newcomer is likely to be Standard Chartered, which was in Nigeria for many years before selling its minority stake in First Bank a few years ago. Under the new rules when it gets a licence, it will reopen as a wholly-owned subsidiary of the London-based group mainly targeting the corporate sector and trade finance.

Lagos-based financial consultants and industry analysts, Agusto and Co, believe the shake-out still has some way to go, rating as many as 26 banks as "distressed" in their 1998 banking industry survey. Agusto rates only 25 banks as "acceptable risks or better" and warns of "latent doubtful debts in the industry's loan portfolio".

"The industry was not very competitive in the past" says one banker, "but with the internationalisation of Nigeria's financial markets, this is set to change." In such a market, 70 banks are just "too many", he says, predicting that the shake-out will continue, though the systemic crisis affecting the sector as a whole has been resolved.

The formal granting of autonomy to the CBN in the 1999 budget will mean a more active open market operations and interest rate policy. At present, the rates structure – like the "official" exchange rate of N86 to the dollar – is hardly market-driven.

Treasury bills, yielding 12.5 per cent, are way below inter-bank rates of around 18 per cent. CBN officials complain that the banks are earning excessive margins, but as one banker says, the spread between marginal deposit rates and marginal lending rates is never above 1 per cent and usually 0.5 per cent or even less.

In common with economists and industrialists, bankers expect inflation and interest rates to rise during 1999. If, as seems likely, the authorities are determined to hold the exchange rate at around N88 to N90 to the dollar, interest rates will have to rise as pressure on the Naira builds later in mid-year and beyond.

Just how much monetary policy will have to tighten is evident from last year's experience. Then, broad money (M2) grew 18.6 per cent, with the main driver being CBN lending to the government to fund the budget deficit. Federal government borrowing from the banks which had fallen more than 50 per cent in 1997, rose more than a quarter – a trend likely to continue when a free-spending civilian administration, carrying the baggage of election promises, takes over in June.

Alert to the danger, the CBN has already trimmed its 1999 money supply growth target from the 15 per cent announced with the budget to between 10 per cent and 12 per cent. Assuming inflation of around 15 per cent as even the optimists expect, such a monetary target would be well below the projected growth rate of nominal GDP of some 18.5 per cent.

The net effect is likely to be a slippage all round – a weaker exchange rate with many bankers predicting N105 to N115 to the dollar by the end of 1999, along with higher interest rates, faster monetary expansion than targeted and GDP growth of less than the budget's 3 per cent estimate.

In the past, CBN policy on bank liquidation and monetary policy has been subject to frequent political intervention. Just how CBN autonomy will work in practice will soon be tested when the incoming administration has the option to renew Mr Ogwuma's appointment or to put its own man at the helm.

To curb inflation and hold the Naira steady, the next governor will have to make some politically unpopular decisions which the elected civilians may be reluctant to accept.

STOCK EXCHANGE by Tony Hawkins

Stage is set for recovery

Equity investment should receive a boost when a civilian government takes office

After peaking in April 1997 at around 8700, the Nigerian Stock Exchange's all-share index fell 36 per cent to below 5500 last month. Political uncertainty, the economic slowdown and the unpopularity of emerging market investment are partly to blame for this reversal in the market's fortunes, but perhaps the most telling influence has been the steep fall in corporate earnings since the mid-1990s.

An index of corporate turnover and earnings based on the results of 45 listed non-financial companies, including the all-share index heavyweights, shows that while sales virtually trebled between 1993 and 1998, earnings rose just 14 per cent. Index post-tax profits doubled between 1993 and 1995, but have since plunged more than 40 per cent.

When adjusted for retail inflation, the picture is even more depressing. Sales have fallen more than a quarter since 1993 while net earnings are down more than 70 per cent. In 1993, after-tax profits were some 21 per cent of turnover, but by last year this margin had slumped to less than 5 per cent.

The figures are distorted by the steep deterioration in the performance of the petroleum marketing companies, but in recent years sales and earnings of some of the heavy hitters – Nigerian Breweries, Lever Bros and West African Portland Cement – have taken a knock.

Small wonder then that stocks should have retreated by more than a third, though now the stage would seem to be set for something of a recovery. Equity investment should receive a boost from returning confidence when a civilian government takes office, while the average price/earnings ratio, down from 16 in mid-1997 to 10 at present, should respond to some recovery in earnings in 1999/2000. Even if p/es stay roughly where they are, as earnings pick up so equity prices should regain some of the buoyancy of the 1994-97 period when they increased more than fourfold.

Two striking indicators of returning confidence are Nigeria Bottling Co's planned N8.6bn rights offer in April – the market's largest to date – to finance upgrading and expansion and a $100m locally-financed expansion by West African Portland Cement.

There is a good chance, too, that foreigners who invested some $50m on the Nigerian Stock Exchange last year, up from $10m in 1997, will show greater interest now that the country is coming in from the cold. The main deterrent is probably the worry that naira gains will be eroded by a sliding exchange rate.

An exciting new development is the launch of a new multi-billion naira open-ended mutual fund by Lagos-based Denham Management in a joint venture with France's Credit Lyonnais Asset Management. This will increase market liquidity, making it easier for investors to exit than is the case at present because liquidity is so short.

Nigerian stocks

Corporate performance (45 listed non-financial companies)

		1993	94	95	96	97	98
Turnover	Nominal	100	145	233	272	288	298
	Real	100	82	86	78	74	-
Net profits	Nominal	100	119	201	166	141	114
	Real	100	76	74	53	36	-
Profit margin* (%)		20.7	10.0	8.7	8.3	6.7	4.7

Source: IMF * After-tax profits as a % of turnover

INDUSTRY by Tony Hawkins

Sorry picture of a declining sector

Manufacturing is suffering under the combined weight of unfriendly policies, decaying infrastructure and dumping

"The 1999 budget was not a good one for manufacturing," said an industrialist at a recent post-budget meeting, only to be greeted with a wry comment from the back of the room: "Neither is Nigeria [good for manufacturing]." Certainly, the most recent survey by the Manufacturers' Association of Nigeria (MAN), covering the first half of 1998, paints a sorry picture of declining capacity utilisation, output, profitability and employment. Conditions were no better in the second half of 1998 and possibly slightly worse, says Uzor Ekeke, director-general of MAN.

Nor has the 1999 budget helped. By raising duties on imported raw materials by 5 per cent while cutting duties on some finished goods imports by a similar margin, the budget adds to industry's woes. In addition, the 25 per cent duty rebate on imported items has been abolished, adding to the already severe cost pressures of rising inflation, more costly fuel and increased borrowing costs. MAN's claim that Nigeria is being de-industrialised is borne out by manufacturing's failure to increase its share in GDP, estimated at 8 per cent in 1997, down from over 11 per cent in the early 1980s. MAN puts capacity utilisation in mid-1998 at less than 28 per cent. Much of this capacity is more apparent in the real sense that it is obsolete and, were demand to increase, heavy investment in rehabilitation and upgrading would be needed.

United Nations Industrial Development Organisation (Unido) figures suggest that manufacturing value-added was no higher in 1997 than in 1982. In constant dollars, manufacturing output more than trebled in the 1970s, before plummeting almost 40 per cent in the first half of the 1980s. Output peaked in 1991 and, since then, has declined marginally. Although a number of high profile multinationals are investing, most of MAN's 1,800 members are not. Total manufacturing investment was down almost 50 per cent in the first half of 1998, reflecting depressed demand, and the build-up of unplanned inventories and declining investor confidence.

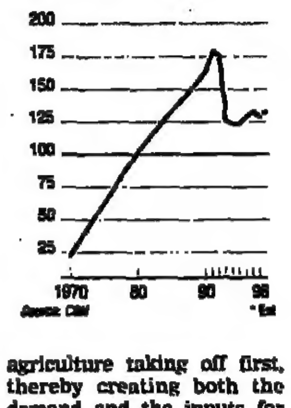
Investment continues to be discouraged by the long-running supplyside problems of infrastructural decay exacerbated by the fuel supply crisis of the past two years and – on the demand side – by falling disposable incomes. Despite Nigeria's high-cost environment, the dollar price of Coca-Cola is the lowest in the world, reflecting the fact that some 60 per cent of the population live in poverty. Competition is intense, and growing more so, partly the result of low-cost imports from the Far East, often smuggled in duty-free, and an overvalued naira. Industrialists hope that anti-dumping laws, promised in the budget, will help, but there can be no getting away from the core problem, which is the fact that Nigerian manufacturing simply is not competitive.

Last year's Africa Competitiveness report by the World Economic Forum and the Harvard Institute for International Development, ranked Nigeria second from the bottom among 23 African countries that were assessed. The main reasons for Nigeria's abysmal showing were the obvious ones – weak infrastructure, corruption, policy instability and the risk of military coups, inflation, crime and theft. Just how severe a handicap infrastructural decay has become is illustrated by one food processing group which estimates that because it has to generate its own electricity, production costs are some 25 per cent higher than in countries with efficient infrastructure.

Despite this, Vision 2010 is hugely optimistic about manufacturing's future, projecting that its share of GDP will double between 1996 (6.7 per cent) and 2000 (15 per cent). The reality on the ground thought is that this target will be missed by a substantial margin, as in all probability will the goal of manufacturing contributing 25 per cent of GDP by 2010. The Vision expects manufacturing to diversify as output shifts from light consumer goods to intermediates and capital goods, while export-oriented industries develop, capacity utilisation trebles and some $4.5bn, much of it foreign, is invested in the sector. A more realistic vision would be one that accepted that Nigeria has very little chance of becoming internationally competitive over the next decade and that its best chance of re-industrialising depends on agriculture taking off first, thereby creating both the demand and the inputs for industrial expansion. It is clear also that a more competitive exchange rate is crucial to industrialisation. The longer the rate is overvalued, the more imports will be encouraged and the greater the danger that companies will trade rather than manufacture – a trend that is already well-rooted.

Manufacturing production

Index (1985=100)



OIL by Robert Corzine

End in sight for the winner-takes-all era

The commercial attraction of the Niger delta's resources has offset the frustration of operating in the country

Last year's collapse in oil prices has made a big dent in the level of investment in Nigeria's oil industry, which was also beset by widespread disruption of onshore production by minority rights activists and militant youths in the Niger Delta demanding a greater share of the oil wealth.

For the foreign oil companies who operate joint ventures with the state-owned Nigeria National Petroleum Corporation, the country's difficult business environment and complex social, political and ethnic structures have often proved frustrating and at times demoralising. But the Niger Delta is a land of low-cost oil and gas reserves in an era of low crude prices, and, so far, the commercial attraction of those resources has offset the frustration of operating in Nigeria.

For some companies, such as Royal Dutch/Shell, the biggest foreign producer accounting for about half the country's 2m-plus barrels a day, Nigeria is simply too big a prize to ignore.

"Nigeria is fundamentally a low-cost oil producer," says Mark Moody-Stuart, Shell's chairman. "It is strategic to the future of the group."

Paul Caldwell, the head of Mobil's Nigerian subsidiary, which has $2.7bn worth of assets and offshore reserves of 6bn barrels, says even at today's low oil prices of $10-$12, "there is still some margin for everyone". Offshore operating costs are in the $2-$2.50 a barrel range, while capital costs to develop new fields are between $2.50-$3 a barrel. Finding costs in the joint venture areas "are very low", he says.

Even the existing fields can hold hidden attractions. "The more you study them the younger they get," said one Mobil executive recently as he surveyed the company's offshore complex from the Oso platform off Qua Iboe in south-eastern Nigeria.

The attraction of low-cost oil has caused some companies to look towards long-term expansion even as they cut back current operations because of the global crude price slump. Although Shell has been beset by production disruptions onshore, with 150,000 barrels a day shut in recently because of "community disturbances", it has come up with an $8.5bn plan to revitalise the industry by linking the growth in oil production capacity – a stated goal of the military government and an assumed priority for any incoming civilian administration – with the commercialisation of gas reserves that are now flared.

The key to the scheme, which consists of 12 projects ranging from the development of four new offshore discoveries – including the deepwater Bonga field – and a big onshore gas-gathering scheme, is approval of a third train at the Nigeria Liquefied Natural Gas plant at Bonny Island. A positive decision would "transform the Nigerian petroleum industry", says Martin van den Berg, chairman of Shell's Nigerian subsidiary, and make it possible for the country to become a world-class LNG producer.

But expansion of the industry will depend in part on finding more efficient ways to finance individual projects, given the chronic difficulty on the part of the government to come up with its share of joint venture costs. "Historically they [NNPC] have always paid," notes Mr Caldwell at Mobil. Although he "will evaluate all financing options, we would really like to see NNPC pay their share and be done with it".

Tom Schull, a senior Chevron executive in Lagos, says the "up and down aspect of NNPC financing is terribly inefficient". Many companies would like to see greater use of production sharing contracts, such as those that will apply to the deep-water discoveries such as Bonga and Texaco's recent Agbami find once the government formally ratifies the terms of their PSC agreements.

Under PSC terms the foreign company finances a development, the cost of which is repaid to them through early production. Thereafter the company and government split the revenues after the operator deducts running costs, with the state taking the lion's share. Other alternatives include the foreign companies carrying NNPC's share of specific developments.

Privatisation of NNPC's holdings in the existing joint ventures is yet another option, albeit one that is politically sensitive. Although some Nigerians believe it is possible as long as the government continues to reap the vast majority of the oil revenues through royalties and taxes, others say it is too ambitious and could easily get bogged down in bitter political debate. Mr van den Berg at Shell is blunt in his assessment of the prospect of privatisation: "It is not one of my priorities. If it happens it's a bonus."

But even if new ways are found to fund the industry more efficiently, the real priority will be for a civilian government to demonstrate that the wealth produced by the industry can be shared more widely among Nigeria's population.

Mr Moody-Stuart at Shell believes "there is a major opportunity for development [of the oil and gas industry] in Nigeria, but you have to have confidence that the proceeds will be wisely spent".

But as senior Shell executives are so fond of saying, "it's now a show-me world". It is not just capital that is needed to underpin Nigeria's oil industry. Its future will also rest on the ability of the new civilian government and the foreign oil companies to persuade the increasingly restive people of the Delta that the "the winner-takes-all" era of Nigeria's oil sector is coming to an end.

The Niger delta is a land of low-cost oil Panos

OPEC oil production
(Million barrels per day)

	1997	98
Saudi Arabia	8.08	8.08
Iran	3.63	3.61
Iraq	1.15	2.11
UAE	2.25	2.28
Kuwait	1.84	1.79
Neutral zone	0.53	0.55
Qatar	0.62	0.66
Nigeria	2.28	2.11
Libya	1.42	1.39
Algeria	0.85	0.82
Venezuela	3.18	3.12
Indonesia	1.36	1.29
Total crude oil	27.28	27.82
NGLs*	2.80	2.86
Total	30.08	30.67

Source: IEA * Natural gas liquids (incl condensates)

NATURAL GAS by Robert Corzine

The golden egg is ready to be hatched

It has taken more than 30 years for the first liquefied natural gas plant to move from concept to reality

The development of Nigeria's natural gas industry will receive a big boost later this year when the two production trains at the Bonny Island site of Nigeria Liquefied Natural Gas come on stream.

The $3.8bn NLNG project is the centrepiece of Nigeria's nascent gas industry, which some officials believe could become a global operator in years to come.

Capital intensive gas projects usually have long gestation periods, but it has taken more than 30 years for NLNG to move from concept to reality. Several factors inhibited its development. First, there are no big nearby industrial markets that could be fed with large quantities of pipeline gas. Second, demand for LNG in the Atlantic basin has developed slowly. And there were doubts about whether NLNG could be financed. These were only overcome when the scheme's partners - the Nigerian National Petroleum Company, Royal Dutch/Shell, Elf Aquitaine and Eni – agreed to fund it through equity placed in an overseas escrow account.

Although one of the main reasons behind the development was to eliminate the wasteful and controversial flaring of huge quantities of natural gas produced alongside the oil in the Niger delta, the initial flow of gas to the plant will come from "non-associated" gas fields.

A third train, now under discussion by the NLNG partners, is the key to putting out the flares, according to Shell, which has been one of the main driving forces behind the commercialisation of Nigeria's gas industry. It has put forward an ambitious $8.5bn scheme to link the third train with the expansion of Nigeria's oil output by 600,000 barrels a day, mainly from new offshore fields.

Martin van den Berg, chairman of Shell's Nigerian subsidiary, is "very confident" that a market will exist for LNG from a third train, which would mainly compete against Atlantic LNG in Trinidad for new customers, such as Brazil, as well as for existing markets in Europe.

Shell officials say the financing of the proposed NLNG expansion would be along the same lines as that of the first two trains, with each of the partners placing their share of the costs in a foreign escrow account.

That is different from most LNG projects, which are mainly built using a combination of equity and project financing. One offsetting feature of the NLNG method, however, is that revenues accrue immediately to the partners once the plant comes onstream.

The third train and the associated oil field developments will also enhance the security of gas supply to the plant. Currently NLNG is fed by only one pipeline. Approval of the package of projects proposed by Shell would allow for the construction of two additional pipelines, one of which would come from new offshore fields directly to the LNG plant.

Given the scope in the Niger delta for sabotage, the potential vulnerability of NLNG to disruption has become a priority issue for the government and the project's partners. A joint government/industry committee has recently been set up to explore ways in which to make the line more secure. Although the high pressure gas pipeline is thicker than oil lines in the region and is buried deeply, Mr van den Berg says the threat of disruption must be taken seriously: "They might well do it. That's why we have to address this issue."

Any disruption would be a big blow to the international competitiveness of NLNG, as one of the main guarantees demanded by LNG customers is consistency and security of LNG supplies. The committee is due to report by September, before regular shipments begin towards the end of the year.

Although NLNG dwarfs other gas projects, there has been some progress in finding domestic and regional markets for Nigeria's surplus gas, as well as new export schemes. Mobil and the government recently completed their $810m Oso natural gas liquids project at Bonny island, which has also helped the company to reduce flaring at its offshore facilities.

Several companies are taking part in a feasibility study of the proposed West Africa pipeline that would send Nigerian gas to Benin, Togo and Ghana. It is due to be completed by the end of February. Demand is expected to be around 250m standard cubic feet a day.

Michael Weston, managing director of Shell Nigeria Gas, says that although the project is technically straightforward and could be completed in 2½ years, "the economics won't be powerful."

Nevertheless, the three countries are now discussing a regulatory regime, including access to rights of way and deciding issues such as who will have access to the pipeline and under what conditions. The attitude of the World Bank and African Development Bank toward a regional gas grid could play a big part in any decision to launch the scheme.

On the domestic front, there is increasing activity in trying to develop local markets. The Nigeria Gas Company is using the Escravos to Lagos gas pipeline as a basis for extending supplies to industrial areas. Shell, which has vowed to eliminate flaring in its Niger delta operations by 2008, has decided to install gas lines to a number of industrial towns in the south as part of an effort to expand gas usage in the domestic economy.

Ten industrial areas have so far been identified as potential markets, with the first two due to be linked to gas supplies by the end of the year. Mr Weston estimates the cost of bringing gas to each area at between $10m and $35m, the cost of which is currently funded 100 per cent by Shell.

Although the lack of reliable electricity has forced Nigerian companies to rely on expensive and sometimes equally intermittent diesel supplies, Mr Weston says it has not been easy to convince them of the merits of switching to gas.

Shell plans to offer the gas to potential customers at a discount to fuel oil prices as an incentive to switch.

COCOA by Mark Turner

Tragedy of a sector in decline

Political changes may at last offer a small glimmer of hope for a commodity that has been largely written off by investors

The tragedy of Nigeria's cocoa sector is that a former bedrock of the country's economy has become little more than a foreign exchange game and money-laundering operation.

A comprehensive new report commissioned by Socfinco, the Belgian commodity company, charts a "high degree of fluctuation" and lately "unabated decline" in Nigerian cocoa since its high point in the 1970s, when the country produced more than 308,000 tonnes and more than 20 per cent of the world production. Production today stands at around 140,000-160,000 tonnes, or about 6 per cent of world supply, with this year's crop expected to be at the high end of the range after a late harvest.

Given that cocoa is Nigeria's largest foreign exchange earner after oil, although a very distant second, and given the country's potential in both bean cultivation and cocoa processing, the tragedy is all the more pronounced.

But political changes may at last offer a small glimmer of hope for a sector that has, for the time being, been largely written off by potential investors.

Although the presidential aspirants have not laid down a hard economic agenda, it seems inevitable that the incoming government will need to offer Nigeria's large rural sector serious incentives in return for their support: in the south-west of the country, that means cocoa.

If the new administration is to succeed, however, a few minor policy changes will not be enough. Planting of new trees is at a minimum, despite fast-growing hybrids emerging from the Cocoa Research Institute of Nigeria, and many of the bigger operators have pulled out of the sector altogether.

Wadji Zard, a member of an influential Lebanese trading family said that it was becoming almost impossible for legitimate operators to earn a living from Nigerian cocoa.

One important difficulty is that cocoa traders have to deal with two currency fluctuations: the naira to the dollar, and then the dollar to the pound, in which cocoa is traded. Given the government's policy inconsistencies, that can be very difficult to predict.

Alongside that, honest dealers need to buy at the official rate of naira, now around N86 to the dollar, while small-scale operators can use the parallel market rate of around N95 to the dollar. Rampant smuggling meant that legitimate traders have to pay export duties, alongside competitors who evade them and offer an extra N2,000 to N3,000 per tonne. They also have to compete with money launderers.

Segun Fagboyegun, from a Yoruba agricultural family, tells a similar tale. Policy fluctuations (a ban on cocoa exports one year, no ban the next), poor rural infrastructure and a relative lack of support for southern farmers is compounded by rampant theft and insecurity problems. "Nobody is planting for the moment; it doesn't make sense," said Mr Fagboyegun. "People would prefer to wait until things are more stable, until we have proper law enforcement in place."

A lack of new planting has led to low yields – Nigeria produces around 400kg/ha compared to three times that in Ghana. And disease is a problem. Cocoa processing, despite some relative success stories such as Stanmark, is at a very low ebb.

The sad irony is that Nigerian cocoa is fairly good quality and commands high prices; another plus is that farmers receive a far higher percentage of the world price than their counterparts in Ivory Coast. But without a significant policy push, few predict a bright future for the sector.

As a US department of agriculture report concluded, "the Nigeria cocoa sector is in urgent need of a revised policy framework to revamp its economy".

Cocoa is Nigeria's largest foreign exchange earner after oil — Ashley Ashwood

Farmers need basic services

The sector has suffered from government neglect and a crumbling infrastructure

It is perhaps Nigeria's greatest good fortune that despite decades of misrule it largely has the ability to feed itself.

Although the 1970s oil boom which lured investment and manpower into the cities saw the collapse of Nigeria's commodity exports – groundnuts, cocoa, rubber – that were the mainstay of the economy, the past 10 years have recorded some remarkable progress in important food crops such as maize, cassava and yam. Cattle, poultry, sheep and goats have also seen impressive growth.

Nigeria's aggregate index of agricultural production rose an average of 3.5 per cent per annum from 1993 to 1997, following an increase of almost 9 per cent a year during the 1986-1993 structural adjustment period.

Nevertheless, agriculturalists characterise Nigeria's farming sector as seriously under-exploited, suffering from a crumbling infrastructure, poor extension services to farmers, inefficient distribution of fertilisers and a lack of basic equipment.

While the prospects for Nigerian cash crops, such as cocoa, palm oil and rubber, continue to enthuse some long-term thinkers, large-scale investment is low.

The incoming government therefore faces a serious challenge: as land becomes scarcer, and political pressure grows for investment in the provinces, the civilian administration will be judged by its ability to provide basic services to Nigeria's considerable rural sector.

Agriculture still employs 60 per cent of Nigeria's workforce, and accounts for almost 40 per cent of GDP. But more than 90 per cent of food is produced by smallholders each with under three hectares of land, and more than 90 per cent of farmers still rely on the hand hoe as their primary means of cultivation and fewer than 1 per cent of farmers have access to mechanised tractors. It is notable that consumption today is no higher than what it was 15 years ago, despite rapid population growth.

Agricultural economists say that the key to helping Nigerian agriculture live up to its potential will be to persuade a new generation of intelligent entrepreneurs that there is a money to be made in farming.

But educated Nigerians will need a lot of cajoling if they are to abandon the relative luxury of the city for villages deprived of services.

On the policy level, the government has recently lifted a number of export bans, such as those on cassava and maize, but it will be some time before farmers are convinced that the government will stick to its guns and not re-impose them a few years down the line. Policy inconsistency is a major impediment to long-term investment.

'Agriculture still employs 60 per cent of Nigeria's workforce'

Assuming that the new government addresses rural issues and keeps policy consistent, the smallholder sector – aided by some impressive new technologies developed in the International Institute of Tropical Agriculture in Ibadan – could see some important improvements.

"Nobody should be pessimistic about food production in Nigeria," says Ken Dashiell from the IITA. "These farmers are serious; very serious."

"The infrastructure to support the agricultural sector has crumbled," concludes Fred Kessel, from the US department of agriculture. "The provision of credit is non-existent, and there is no safety net for Nigerian farmers. But the country's ultimate potential is very productive."

Mark Turner

NIGER DELTA by William Wallis and Robert Corzine

An unhappy history of neglect

Protests have grown across the region in an attempt to force home the demand for a share of the oil earnings

Nigeria's oil-producing delta region presents the country's incoming government with one of the toughest problems on its agenda.

Since the execution in 1995 of Ken Saro-Wiwa, the most prominent minority rights activist from the Delta, and eight fellow campaigners, protests have grown across the region.

Over the past months they have come to a head as angry young activists have increasingly turned to kidnapping, sabotage and hijacking of installations in their attempts to force home their demand that a greater share of Nigeria's oil earnings are spent in an area long-neglected by successive governments and their foreign production partners.

Output of about 200,000 b/d of oil – mainly belonging to Royal Dutch/Shell and Chevron – has been shut-off across the region as a result of what oil companies describe as "community action", and tensions remain high.

Although there is provision in the constitution to increase the share of oil revenue allocated to producing areas from the current level of 3 per cent, it is far from certain that this will be enough to defuse the crisis.

Not only will a sorry history of neglect have to be redressed; it will require the creation of a new partnership to replace what one leading activist in Port Harcourt, the area's oil capital, calls an "unholy alliance" between the oil companies and the military governments that have ruled Nigeria.

Bill Knight, a development specialist with Pro-Natura, a non governmental organisation, says both the companies and the government have tended to dictate the type and pace of development with little or no reference to what people actually want.

The result, he argues, is that local communities now feel they have no stake in the oil industry and therefore nothing to lose in halting its operations as a means of putting pressure on the government.

One essential step, say community activists, must be the reform of Ompadec, the government agency charged with utilising a share of oil revenue for the development of the oil-producing communities, has been riddled with corruption. Development contracts were often awarded to friends of the military. Some projects were never started and most were never completed.

Under pressure from international public opinion, oil companies have increased their unilateral development efforts, although senior executives have been baffled and frustrated that the rise in social spending has been outpaced by the growth in "community actions".

Part of the problem is the traditional reluctance of oil companies to get too deeply involved in areas outside their direct expertise. At the same time they have been reluctant to relinquish control over such sensitive issues and delegate development programmes to professionals.

Companies have also tended to concentrate their efforts on those villages most directly affected by oil and gas production. Although that may seem a reasonable approach, it has fuelled jealousy between communities and stretched clan structures to breaking point.

From entire ethnic groups down to the smallest subsets, there have been clashes over the ownership of territory in which oil has been found.

But even if a new civilian government increases the money available to the oil producing states in line with local demands, ensuring that it actually reaches the grassroots level will be an altogether more difficult task.

POLITICS by William Wallis

New government will inherit time bombs

A perpetual fuel crisis that has ground the country to a halt and a demoralised civil service are two important problems that need to be solved

In his short tenure as head of state, General Abdulsalami Abubakar has had a number of things going for him.

His predecessor, General Sani Abacha, was so hated that in the words of the Catholic archbishop, Anthony Obinna, "all he had to do was smile and he could turn the desert that Nigeria had become into an oasis". Releasing political prisoners and opening up debate, he has provided a degree of fairness missing from Nigeria in recent years.

But so much attention has been concentrated on the transition process he initiated last August to end a 15-year succession of military regimes, that the shortcomings of his own rule have been largely overlooked. He leaves the elected government several time bombs.

Not least of these is a fuel crisis that has ground industry to a halt and used up untold working hours. Any government that could starve the unofficial market and get the petrol to the pumps without raising prices, would earn instant popularity. But a failure to tackle this enduring problem would symbolise to many a continuation of failed leadership.

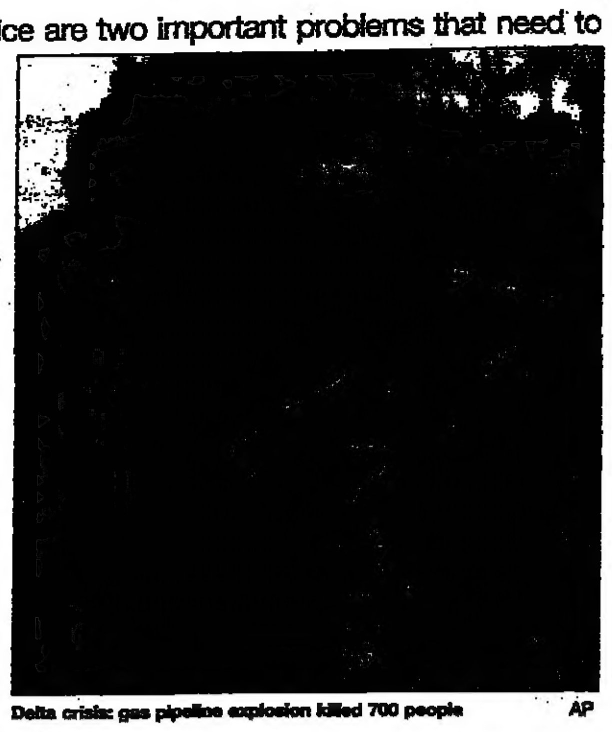
Just as challenging will be the civil service, once an institution that respected procedure and provided continuity during military shake-ups, now an inflated mass of underpaid officials. For the past six months, a series of strikes and broken pledges to raise salaries have quickened tempers and laid a minefield of labour disputes for the incoming government.

"I feel I am lucky to be sitting in the public gallery," said Muhammadu Dikko Yusufu, a non-conformist, former police commissioner whose political party did not qualify beyond the local government elections and who considers the position of the future president as far from enviable.

The two men who are contesting the poll this Saturday are both from Nigeria's second largest ethnic group, the Yoruba. In the interest of national unity, the traditionally dominant north has forsaken its chance to continue at the helm. General Olusegun Obasanjo, the former military ruler, is seeking to win back the presidency he relinquished 20 years ago.

He goes to the polls on the back of the most successful party in state and local government elections, the PDP. Supporters say his tough paternalistic profile, his knowledge of the army and the stand he has taken against ethnic politics, could be important assets in uniting a country that has come close to falling apart. But controversy has trailed him ever since he declared his intention to contest the election.

General Abubakar: presides over a critical transition AP



Delta crisis: gas pipeline explosion killed 700 people AP

The backing he has received from the northern and military establishment have reinforced a feeling that he has been programmed to win to protect vested interests and lend a civilian cloak to continued military rule.

Among his own Yoruba group, there remains a strong sense that he betrayed them in 1979 by not supporting their candidate in the elections. They are likely to continue to put their votes behind the regional party, the Alliance for Democracy (AD), and its partner the All Peoples' Party (APP), which have chosen the former top civil servant and finance minister, Chief Olu Falae, as their candidate.

Chief Falae, too, has his establishment backers but would represent a cleaner break from military rule. Irrespective of the outcome of the presidential election, the winner will not immediately know the extent of the powers he will be given to tackle the many problems. The constitution has not been published and may not be promulgated until the May handover.

It is said to include provisions for greater regional autonomy, among them a 13 per cent derivation clause that could go some way to resolving the crisis in the oil-producing Niger delta where activists have stepped up their campaign for a greater share of revenues.

With elected representatives in all corners of the states, a civilian government will at least be more approachable than the secret, military behemoth it replaces. But as one activist in the delta said "if the civilians slip up, we have the pepper to throw in their eyes".

It will be a delicate juggling act to strengthen regional powers in line with demands, while reining in the more radical elements who see secession as the answer.

The role of the army will be crucial. Of all the dilapidated institutions that need to be rebuilt in Nigeria, the army will be the most difficult with which to deal. Divided, ambitious, and entrenched in every corner of Nigerian society from traditional chieftaincies to the oil industry and business, it will not be dropping out of sight.

A significant number of troops are still on the battlefields in Sierra Leone's bloody civil war. Both General Obasanjo and Chief Falae have promised to pull them out, raising the prospect of a bitter meeting between those who were sent to the front, and those perceived to have grown fat at home.

The politicians have in the meantime spent vast sums of money in the rush to fill positions. Watching in amazement from the sidelines, many Nigerians have expressed fears that recovering it may be of greater importance than wider well-being. For this reason, the civilian authorities may choose not to probe the financial and political crimes of their military predecessors too deeply.

While Nigeria needs a clean beginning, this would in any event be a treacherous undertaking. General Abubakar has himself found this out. His biggest public relations error has been to announce the recovery of some of the billions stolen during General Abacha's rule. The subsequent uncertainty over where it has gone has prompted damaging comments that little has really changed.

But at least there is one point on which Nigerians agree: "Whatever the weaknesses of civilian government," says a leading Lagos banker, "they cannot be more incompetent and corrupt than the soldiers."

PROFILES

PEOPLE'S DEMOCRATIC PARTY; ALLIANCE FOR DEMOCRACY; ALL PEOPLES' PARTY

Convention exhibits party at its best and worst

People's Democratic Party:

The PDP's national convention last week in which former military ruler, General Olusegun Obasanjo emerged as the presidential candidate, exhibited the party at its best and worst.

The preliminaries involved cut-throat slur campaigns and a carnival of influence-peddling and alleged vote-buying.

The ballot itself, however, was more democratic as 2,439 delegates walked calmly across a football stadium in northern Nigeria in the middle of the night, and voted secretly.

Their votes, 57 per cent of which went to General Obasanjo, were counted in the open. The runner-up, Alex Ekwueme, closed ranks by accepting the results with remarkable grace in a bid to limit the electoral fall-out from his defeat among the Igbo tribe in the south-east of the country, where he is a favourite son.

The two men represent the principal currents that have come together in the short time available to form the party. Alex Ekwueme was vice-president in Shehu Shagari's elected government which was overthrown in a coup in 1983.

As such, he represents the reincarnation of politicians from the old National Party of Nigeria. He was also instrumental in forming the backbone of the PDP, the G-34, a pan-Nigerian group which came together last year to oppose plans by the late General Sani Abacha to succeed himself in elections.

General Obasanjo, a Yoruba from the south-west, came in later on, the favourite of one of the most powerful and well-oiled political machines in Nigeria founded by his former military vice-president, Shehu Musa Ya'ardua. Both generals were jailed by Sani Abacha for alleged coup plotting in 1995, but General Ya'ardua did not survive the ordeal.

Atiku Abubakar, the elected PDP governor of the north-eastern state of Adamawa and now his running mate, took on the behind-the-scenes leadership and did much to galvanise support for the general in the north. Within its ranks, the PDP harbours a diverse range of established regional personalities and different ideologies.

But its manifesto, for what it's worth in Nigerian politics, is "centrist", advocating the guided deregulation of the economy together with improved funding for healthcare and education.

Along the way, it has drawn in a strong contingent of retired generals, earning it a reputation among detractors as the establishment party destined to guard the vested interests of the military.

Until now, such allegations have failed to make an impression on its electoral advantage as the best financed and regionally representative party.

PDP governors won 20 of the 36 states, while the party controls around 60 per cent of elected local councils.

Regional force seeks a national platform

Alliance for Democracy:

Since the transition to elected rule began last year, the Yoruba-dominated Alliance for Democracy (AD) has been a regional force in search of a national platform.

First it joined with the broader coalition, the PDP, only to pull out on the grounds that PDP leaders would not guarantee the presidential candidacy would be "zoned" to the south.

The party then crossed the floor to join the APP, only to discover some of the most ardent promoters of the late dictator, Sani Abacha – even one or two involved in crushing Yoruba protest under his rule – were sharing the platform.

On its own in state and local government elections, it won all six south-western states where the Yoruba form a majority. It made little attempt to score elsewhere.

Some within the party argued that by simply going on to win their regional share in the house of representatives and senate, they would be a force to reckon with, pushing through a Yoruba agenda for greater regional autonomy and constitutional reform.

But a more pragmatic lobby gained ground when the moderate, former finance minister, Olu Falae, won the presidential candidacy, and the executive, under party chairman, Ayo Adebanjo, renewed contact with the APP to form an electoral pact that gives Chief Falae an outside chance of winning the presidency.

The AD inherits a long tradition of leftist, Yoruba nationalist, politics, begun before independence by the late south-western premier, Chief Obafemi Awolowo and continued more recently under Afenifere, the Yoruba cultural association, and the National Democractic Coalition (Nadeco), the pro-democracy campaign group.

Despite representing a narrower ethnic interest group than the other two parties, it still contains a collage of ideological bents. While Chief Falae has tackled some of the more pressing economic issues such as the debt burden and privatisation during campaign interviews, free education and healthcare have been prominent among election pledges by other party members.

Within the AD, there are also those who promote the idea of restructuring the army along regional lines, a move that would, if successful, curb its domination by the north, but could provoke a disastrous military backlash in the process.

Internal squabbles dim prospects

All Peoples' Party:

Like all the parties formed under Nigeria's short transition programme, the APP's cohesion has been threatened by competing interests and individual ambitions.

But indications over the past two weeks suggest it is not big enough to contain these. Its national convention last week broke up in fist fights and threats of sabotage from aspirant heads of state who were denied the chance of presenting their case for seeking the presidency to assembled delegates.

Thanks to the prominence and regional popularity of some of its northern members, APP governors won in nine of the 36 states.

The party's chances of improving on that have dimmed with recent rows. Mahmud Waziri, the party's chairman and a former senator, has had to bypass wider opinions and force through an alliance with the Alliance for Democracy, its only realistic chance of forming a government.

A fusion of more than 30 political associations and politically ambitious business magnates, its founders said they hoped to create a party with a broad national spread and diversity of opinion. However, it has struggled to shake off the stigma attached to members who participated actively in the late Sani Abacha's transition programme.

Many came from the five parties – derided by Yoruba chieftain, Bola Ige as the "five fingers of the same leprous hand" – which endorsed General Abacha's bid to succeed himself as president.

The voter attraction of powerful figures, such as Umaru Shinkafi, Chief Olu Falae's running mate under the APP/AD alliance, and the former head of the national security organisation in the civilian government of the eighties, have proved vital.

William Wallis

Nigerians go to the polls on Saturday to elect a new government after 16 years of military rule AP

Transition timetable

June 8, 1998: General Sani Abacha dies. He is replaced the following day by General Abdulsalami Abubakar.
July 20: General Abubakar announces new timetable for return to civilian rule.
August 11: General Abubakar names a 14-member Independent Electoral Commission (INEC) to run elections.
August 25: INEC announces timetable and rules for elections.
September 5-19: Voter registration.
December 5: Local government elections contested by nine parties. Only three win sufficient votes to qualify for the next stage.
January 9, 1999: State assembly and gubernatorial elections. People's Democratic Party (PDP) wins 20 of 35 states spread between the north, the south and the east, followed by All Peoples' Party (APP) with nine states in the north and centre and Alliance for Democracy (AD) with all six states in the south-west.
January 30: PDP wins Bayelsa state polls which were delayed after a state of emergency.
February 12: Deadline for nomination of presidential candidates, extended to February 15.
February 20: National assembly elections*.
February 27: Presidential election.
May 29: Inauguration.
* *After this survey was printed.*